Consumers' Gas Annual Report 1978

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The Company

The Consumers' Gas Company distributes natural gas in communities in central and eastern Ontario, western Quebec and northern New York State. In addition, the Company has significant interests in oil and gas exploration, development and production principally through its investment in Home Oil Company Limited.

Corporate Goals

Shareholder Goal: "To provide the common shareholders with a just and reasonable return on invested capital."

Customer Goal: "To provide a high level of service to our customers at reasonable cost."

Employee Goal: "To provide secure employment with just compensation in an environment which recognizes the dignity of the individual and provides opportunity for achievement."

"Responsible People Working with Dependable Energy" is more than just a theme selected for this year's annual report. It is a statement which reflects the Company's commitments to its shareholders, customers and employees.

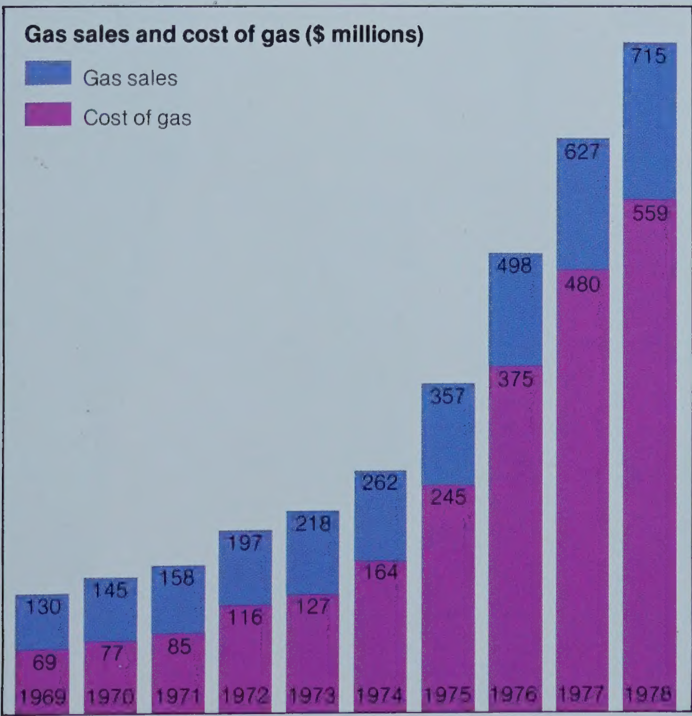
In 1978, the Consumers' Gas distribution system continued to expand. Pipeline Inspector Gord McIlwain (r) who retires this year after 34 years with the Company, is shown with his replacement Bob Butson who has 11 years of service. Gord and Bob are running down the final checklist on mains installed to ultimately connect 800 new homes in Mt. Albert, Ontario.

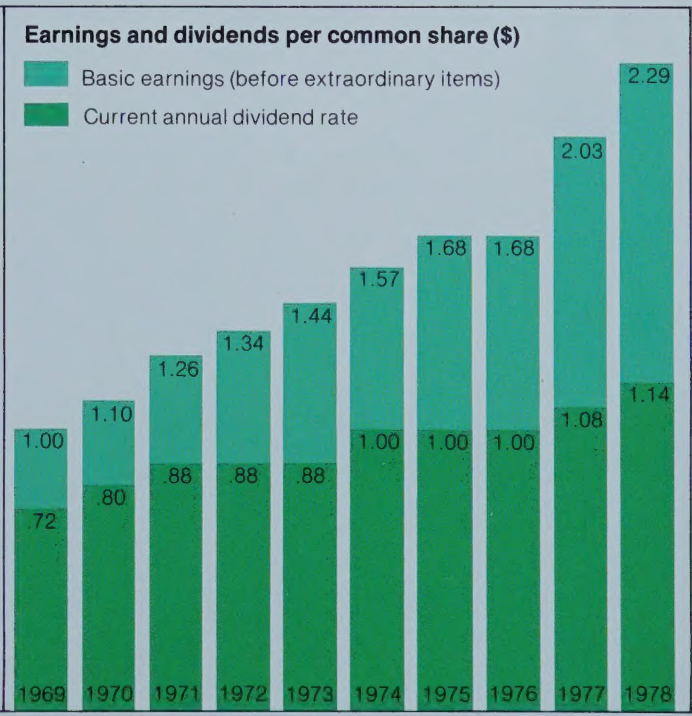
The 130th Annual Meeting of Shareholders will be held at 11:00 a.m., Wednesday, December 13, 1978 in the Blue Flame Room of the new Consumers' Gas West Central District office, 950 Burnhamthorpe Road West, (West of Highway 10) Mississauga, Ontario.

Highlights

The Consumers' Gas Company

September 30	1978	1977
Basic earnings per common share		
Income before extraordinary items	$2.29	$2.03
Net income	$2.46	$1.67
Dividends declared per common share	$1.14	$1.08
Weighted average number of common shares outstanding	20,658,821	20,645,459
Net income for the year	$ 53,625,000	$ 37,325,000
Volume of gas sold–Mcf	309,575,000	318,664,000
Number of active customers	558,598	534,828
Total revenues	$743,288,000	$649,822,000
Property, plant and equipment less accumulated depreciation and depletion	$648,500,000	$619,469,000
Additions to property, plant and equipment	$ 70,509,000	$ 58,880,000
Total assets	$1,019,530,000	$916,452,000





Report to Shareholders

In 1978 Consumers' achieved satisfactory improvement in basic earnings per common share which increased from $2.03 in 1977 to $2.29 in 1978. These favourable results were assisted by colder than normal weather during the year, which offset, to a large extent, the decline in customer use of gas due to conservation. Earnings also benefited from a reduction in current income taxes of approximately $2 million as a result of the application of the 3% inventory allowance to the Company's inventories and from increased earnings reported by Home Oil Company Limited. During the fiscal year, an additional 825,131 non-voting Class A shares of Home were purchased thereby increasing the Company's participation in the equity and earnings of Home from 25.2% in 1977 to 35.1% at September 30, 1978. The Company has since increased its equity position in Home to 37.9% through the purchase of an additional 230,000 Class A shares.

On March 7, 1978, the Ontario Energy Board issued Reasons for Decision in which it determined a projected September 30, 1978 rate base of $734.4 million and a 10.4% allowable rate of return which included a 14% return on common shareholders' equity. The decision established that the Company was entitled to additional gross revenue to enable it to recover increases in the cost of doing business which occured in the 1977 and 1978 fiscal years.

In 1976 the Company decided that it would be appropriate to engage the consulting firm of Peat, Marwick and Partners to conduct a management audit. Its prime purpose was to obtain an objective assessment of the efficiency and effectiveness of the Company's operations. In January 1978 Peat, Marwick submitted a detailed report in which it concluded–"In our opinion, Consumers' is a well managed utility. It has a commendable record of service, a dedicated staff with high morale, and a strong commitment to high quality service and system safety." The audit, of course, identified areas where opportunities for improvement existed and Company programs have for some time been underway in most areas, to realize the benefits of these recommendations.

At this time a Report to Shareholders would not be complete without an overview of what appears to be a rapidly changing and confusing energy environment. The natural gas industry has come through a period of dramatic transformation in the last few years. In 1974 it was feared that traditional western Canadian sources of supply would not be able to meet consumer demands in the early 1980's. Today as a net result of an increase in western reserves and a reduction in the estimated growth in demand for natural gas, the industry is in a position where it has an immediate surplus of gas available for sale and it is now anticipated that market requirements can be met well into the late 1980's and beyond.

The increase in western reserves resulted from accelerated exploration in response to increases in natural gas prices prescribed by the Federal Government under the Petroleum Administration Act. However, it was perhaps predictable that rising energy costs would motivate conservation efforts on the part of the consumer, resulting in demand being sharply lower than many had forecast.

The problem becomes even more complex for a distributor of natural gas such as Consumers' because competition from a plentiful and increasing supply of low price residual oil threatens existing and potential industrial markets. Heavy fuel oil is a by-product of the refining process and, consequently, must be disposed of at any price. The significant increases in the cost of gas which have occurred in recent years have also brought competition from imported coal which can be used at Ontario Hydro's R.L. Hearn Generating Station, and have resulted in a substantial reduction in the volumes of natural gas being sold to this customer.

Courtesy and sensitivity are important elements in the high level of service provided to the customer. Janice Elston is just one of the 575 responsible people who have successfully completed a highly intensive customer relations training course during the past year. Janice is a University of Guelph BA graduate who worked for Consumers' as a summer student in 1976 and 1977. In April, 1978 she joined the Company as a full time senior clerk trainee in Metro Toronto Customer Accounting.

The combination of these events are of more than academic interest to your Company because it had to enter into long term contracts with TransCanada PipeLines Limited, to secure an adequate supply of natural gas for the future. These contracts were negotiated many years ago and provide for the delivery of specified volumes of gas for another seventeen years. Because the supplier has provided facilities to meet these delivery commitments, the costs it has incurred must be recovered whether volumes under contract are delivered or not. TransCanada's tariff therefore contains a fixed cost component which effectively increases the unit cost of gas when volumes actually taken fall below contracted-for levels. The dramatic change in the market demand for gas has been such that the Company may not be able to take delivery of approximately 17.6 Billion cubic feet (Bcf) of gas under contract with TransCanada in its 1979 fiscal year and, consequently, the cost of volumes actually sold may rise by an estimated $7.6 million. The Company is seeking the approval of the Ontario Energy Board to recover this uncontrollable increase in costs from customers in rates.

The solution to these problems lies in the development of a Canadian energy policy designed to ensure the balanced economic use of the country's natural resources. It is obviously to Canada's advantage to encourage the increased use of natural gas by discouraging the importation of offshore crude and the consumption of dwindling supplies of oil. However, if natural gas is to achieve its energy market potential, a solution must be found to the growing oversupply of residual fuel oil which is threatening to make heavy inroads into the large volume industrial sector.

During the year a senior executive group was formed consisting of the Executive Vice-President and five senior vice-presidents reporting to the President and Chief Executive Officer. This realignment of responsibilities will enable the Company to react more readily to the changing demands of the energy business and to take advantage of the challenges of new opportunities ahead.

This year the Board was saddened by the death of one of its long standing members, Mr. W.H. Zimmerman. Mr. Zimmerman was first elected a director in 1957 and his extensive knowledge of the Company's affairs will be missed.

The achievements of the past year result from the responsible attitudes and efforts of the Company's many employees. The Directors wish to thank them all for their significant contributions.

On behalf of the Board:

Chairman of the Board

President
and Chief Executive Officer

November 6, 1978

"Cec" Lovegrove is responsible for the operations of the Tecumseh Gas Storage Plant near Sarnia, Ontario. Involved in storage development and related technology for nearly 30 years, Cec plays an important role in balancing gas supply with demand requirements. During 1978 the new Wilkesport Storage Reservoir was added to Tecumseh's facilities increasing storage capacity by 14%. This important addition was completed in a record-breaking 28 days.

Report on Operations

The Senior Executive Group is responsible for the overall operations of the Company. This group was formed in April, 1978 to enable the Company to be more responsive to the changing demands of the energy business and to take full advantage of the challenges of new opportunities ahead.

These executives, supported by other members of senior management, met during the year to review the Company's goals and, in order to achieve them, defined objectives and strategies to be pursued over the next few years. The more important of these objectives appear as follows:

• To ensure that a supply of natural gas is available at reasonable cost to meet market demands at all times.
• To optimize marketing opportunities for the sale of gas while respecting the conservation ethic and changing customer attitudes.
• To maximize productivity and effectiveness in all areas of the Company and to develop a system whereby this productivity and effectiveness can be measured.
• To facilitate the recovery of uncontrollable increases in costs by making timely and adequate submissions to the regulatory authority.
• To promote growth in earnings by taking advantage of opportunities in fields which are compatible with the Company's role as a customer-oriented utility.
• To plan strategically the operations of the Company so that, in an ever-changing environment, the needs of the future may be met.

These objectives are reflected in many of the activities described in the Report on Operations.

The Consumers' Gas Company's Senior Executive Group. (left to right) G.E. Creber, President & Chief Executive Officer; G.W. Carpenter, Executive Vice-President; K.J. Harry, Sr. Vice-President & Chief Financial Officer; R.W. Martin, Sr. Vice-President Operations; J.L. Aiken, Sr. Vice-President Accounting; and A.R. MacKenzie, Sr. Vice-President Administration and Strategic Planning. (Missing from the photograph, R.S. Lougheed, Sr. Vice-President Gas Supply.)

Gas Supply

The Company sells natural gas to residential, commercial and industrial customers in regions of Ontario and Quebec in which more than 18% of the total Canadian population resides. The right to conduct business in these areas carries with it the responsibility to ensure that an adequate supply of natural gas will be available to meet market demands well into the future. To this end the Company purchases almost all of its supply from TransCanada PipeLines Limited, under long term contracts, which provide for deliveries of up to 306.4 Bcf of gas annually for the next seventeen years. The Company also distributes natural gas in northern New York State through its wholly-owned subsidiary, St. Lawrence Gas Company Inc., which is serviced by a supply contract with TransCanada for annual deliveries of up to 6 Bcf until June 30, 1987.

At the present time it appears that the volumes of gas available from Canadian sources will exceed projected requirements for many years to come. This outlook differs greatly from that widely predicted several years ago when it was feared that the supply of gas from traditional sources would not meet the increasing demand for gas in the early 1980's. This prediction has failed to materialize because additional reserves have been discovered in western Canada in response to rising wellhead prices, which have also made it economical to produce reserves previously considered too costly to develop. At the same time historical growth rates in the demand for natural gas have declined as a result of conservation measures and a general slowdown in the Canadian economy. The National Energy Board is currently conducting a natural gas supply/demand hearing to determine the life of current and expected future additions to Canadian reserves.

Coincident with a declining growth rate in demand in residential, commercial and industrial markets, the Company has expe-

rienced a substantial reduction in the volumes of gas which it supplies to Ontario Hydro for use at the R. L. Hearn Generating Station. Volumes of gas delivered to Ontario Hydro reduced from 44.5 Bcf in the contract year ending October 31, 1977 to 26.8 Bcf in 1978. It is anticipated that its requirements will reduce to 20 Bcf in 1979 and to 10 Bcf annually in subsequent years. Ontario Hydro's decision to reduce the volumes of gas it has under contract results from the significant increases in the price of gas which have occurred over the last few years. These increases have placed natural gas at a competitive disadvantage to imported coal which can be used at the Hearn station.

Based on current estimates, these reductions in the market demand for gas place the Company in a position where it will be unable to take delivery of its full contract volumes from TransCanada for the next few years. The fixed cost component of the TransCanada tariff is such that failure to take the maximum volumes available under contract results in an increase in the unit cost of volumes actually taken. In order to alleviate the impact of such an increase until market growth brings a closer matching of sales volumes with gas available for sale, the Company has increased its use of underground storage. It has also exercised its right to reduce contracted-for volumes with TransCanada by 9 Bcf for the contract year commencing November 1, 1979. Further, should TransCanada be successful in its application for permission to export gas to the United States, and subject to National Energy Board rate approval, TransCanada has agreed to offset certain export volumes against those which Consumers' is unable to take in its 1978-1979 contract year.

The excess supply condition could be further reduced or eliminated in the next few years by higher market demand in the period, by greater use of underground storage or by exports to the United States market. However, it is improbable that these solutions will materialize in the near future. It is therefore estimated that the excess supply of gas will amount to 17.6 Bcf during the fiscal year ending September 30, 1979 and approximately 23 Bcf during the TransCanada contract year ending October 31, 1979. Based on these estimates and the August 1, 1978 TransCanada tariff, the Company's unit cost of gas in 1979 would increase from $2.00 to $2.027 per thousand cubic feet of gas actually taken, with a resulting increase in gas costs charged to operations in 1979 of approximately $7.6 million above the cost which would have prevailed had the increase in unit rate not occurred. The Company is seeking the approval of the Ontario Energy Board to recover this uncontrollable cost increase from customers in rates.

The Federal Government continues to index the price of gas to the price of oil at the Toronto City Gate and over the past year implemented two price increases under the provisions of the Petroleum Administration Act. These increases resulted in a Toronto City Gate base price of approximately $2.00 per Mcf as of August 1, 1978. The Federal and Alberta governments will be reviewing the natural gas pricing policy before the end of 1978 giving particular attention to the development of markets for Canadian gas in eastern Canada to replace imported oil. Until this review has taken place, it is uncertain whether or not further increases in the price of gas will occur in 1979.

Underground storage facilities continue to play a very important role in gas supply operations. These facilities enable the Company to meet a fluctuating market demand with a relatively constant daily supply of gas purchased from the pipeline. Constant or high load factor purchases ensure that gas is acquired at the lowest possible unit rate available under the TransCanada tariff.

During the year, Tecumseh Gas Storage Limited, jointly owned by Consumers' and Imperial Oil Limited, expanded its facilities near Sarnia, Ontario thus enabling the Company to increase its useable storage capacity at this location from approximately 52 Bcf to 58 Bcf. Smaller underground storage facilities in the Niagara Peninsula and additional storage space available under an agreement with Union Gas Limited produce an additional storage capacity of 11 Bcf.

For the past ten years, Consumers' has been active in an exploration program for oil and gas in Southwestern Ontario and Lake Erie. The gas from these sources only amounts to approximately 2% of the Company's total annual requirements, but it can be produced at a cost substantially less than the cost of gas purchased from TransCanada. During the 1978 drilling season, a wholly-owned subsidiary, Underwater Gas Developers Limited, utilized its three offshore drilling platforms on Company-owned acreage in Lake Erie to drill 52 exploratory wells of which 17 were completed as potential commercial gas producing wells. Underwater also undertakes contract drilling for other parties.

The Company, through a wholly-owned subsidiary, St. Lawrence Gas Company Inc., is active in exploring for gas and oil in New York State.

Marketing

Since the introduction of natural gas 25 years ago, the marketing activities of the Company have resulted in a 3 fold increase in the number of customers served and a 40 fold increase in the volumes of gas sold. In more recent times, the Company was able to retain the confidence of existing customers and extend service when the future appeared to hold the prospect of supply shortage. While the supply outlook is no longer of current concern, today brings the challenge of selling natural gas in an environment of rapidly increasing prices and of competition in segments of the industrial market from an overabundance of heavy fuel oil. In 1978, Consumers' adopted a more aggressive marketing approach to retain its existing markets and to add new business. Its success is demonstrated by the growth in the total number of customers which increased from 535,000 in 1977 to 559,000 at September 30, 1978.

The volumes of gas sold in fiscal 1978, excluding sales to the R.L. Hearn Generating Station, amounted to 279.9 billion cubic feet, an increase of 2.6% over last year's sales. Colder weather in 1978, approximately 1.8% colder than last year, accounted, to a

Frank Gill, the Senior Gas Controller, and four associate gas controllers continually monitor and control the pressure and flow of gas throughout the distribution network. Frank began his career with the Company in 1956 as a meter reader and, like many employees, has assumed increasing responsibilities over the years.

large extent, for this increase. However, the rate of increase in volumes of gas sold, when adjusted to normal weather conditions, shows a decline from historical growth trends in all market sectors and can be attributed to the economic slowdown and conservation efforts by individual customers.

The Company continues to enjoy success in its appliance merchandising program. During the year sales increased from $7.2 million to $8.6 million with a variety of new product lines being introduced.

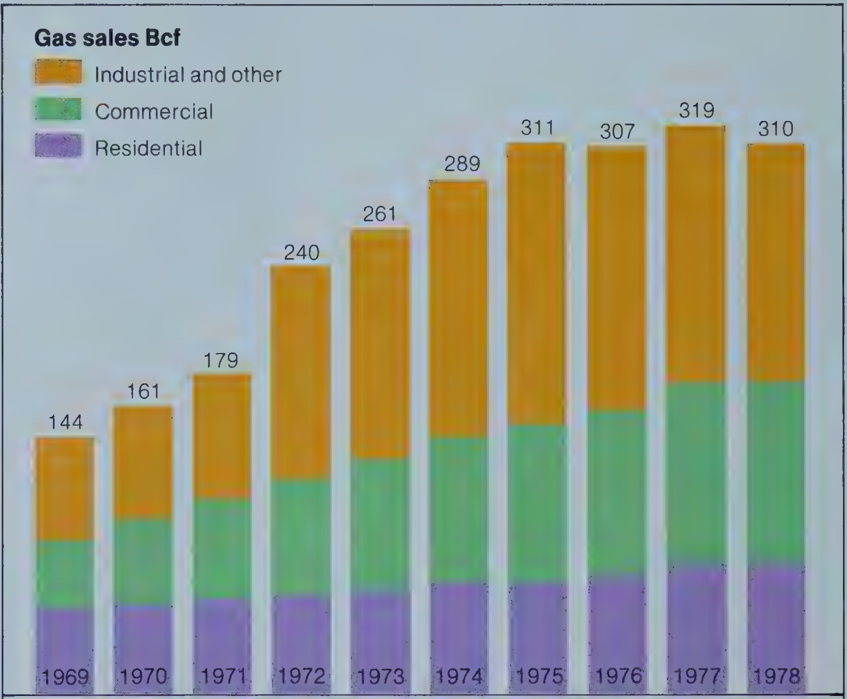
Residential Markets

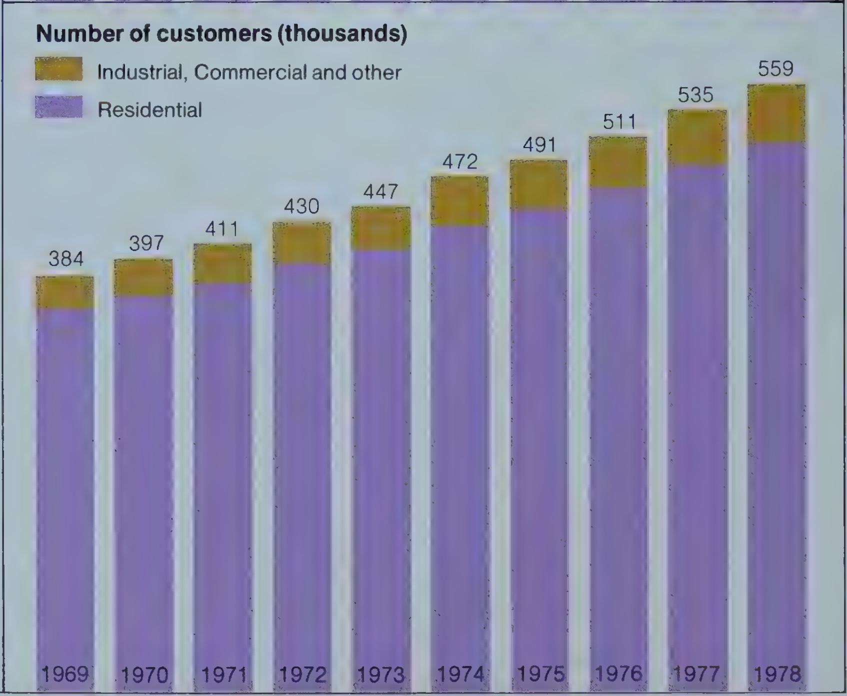
The principal uses of natural gas in the residential market are space and water heating and, to a lesser degree, cooking, pool heating and miscellaneous applications. The residential market accounted for 24% of volumes of gas sold in 1978 and increased by 0.9 Bcf to 74.2 Bcf in the fiscal year. Colder than normal weather and new customers connected to the system contributed to the increased sales volumes. Of the 24,890 new customers, 19,811 resulted from new residential construction and 5,079 from conversions from other fuels to gas. The Company continues to install natural gas in 85% to 90% of new homes constructed in its franchised areas and its more aggressive marketing approach in 1978 increased the number of residential homes converting from alternative fuels to gas by 23% over last year.

In response to nationally advertised conservation programs and the rising cost of energy, the average annual consumption per residential customer has been declining over the past few years. However, the impact of this decline on volumes of gas sold in the residential sector is expected to be more than offset by the addition of new customers over the next few years.

Commercial and Industrial Markets

In commercial markets, natural gas is used for space and water heating, commercial processing and cooking, and air conditioning. Sales in this market sector accounted for 32.8% of sales volumes in 1978. Despite the cold weather experienced in the fiscal year and an increase of 2,188 customers, the volumes of gas sold in this category were unchanged at





101.4 Bcf. This stability in volumes sold is primarily attributed to the poor economic conditions which prevailed during the year and the impact of energy conservation programs.

In the industrial market, natural gas is used in manufacturing processes and for space heating. Consumption in this market sector accounted for 33.7% of 1978 sales volumes. Volumes sold increased by 6.2 Bcf to 104.3 Bcf, an increase of 6.3% in the fiscal year. This increase results primarily from the cold weather experienced last winter.

The large volume commercial and industrial markets are highly sensitive to price competition from other energy sources, particularly where customers have equipment that can be fired with either gas or oil. Many of these customers are in a position to take advantage of an increasing supply of cheaper heavy oil which is available to them in the Company's franchised areas. To date, the Company has been successful in retaining this business. However, the availability of increasing quantities of heavy fuel oil is likely to prevent any significant growth in these markets in the near term, unless exports of the heavy oil surplus to United States markets are developed. In the meantime, the Company continues to seek pricing flexibility in its rate structures to enable it to negotiate with those customers who may view heavy oil as a more economic alternative to natural gas.

Thermal Generation

The Company's largest customer, Ontario Hydro, has purchased natural gas for use at the R.L. Hearn Generating Station in Toronto since 1971.

The reduction in deliveries to Hearn, in 1978 and beyond, are described more fully on page 8 of this report. The reductions present the Company with the challenge of aggressively seeking new markets to offset this loss of volumes of gas sold.

Regulation

The rates which the Company charges its customers in Ontario for the supply of natural gas and related services are subject to the approval of the Ontario Energy Board. The regulatory process involves a searching examination of the Company and its affairs to satisfy the Board that the rates charged customers are reasonable. Because the Company is dependent upon the Board for the timely approval of rates, a determined effort is made to ensure that the Board has at its disposal sufficient information to understand readily the complexities and problems of the natural gas distribution business.

Over the last several years, events beyond the control of the Company have resulted in a series of significant increases in the cost of doing business. For example, since 1973 the cost of gas purchased by the Company has increased by over 400% as a direct result of the Federal Government's indexing of the price of gas to oil at the Toronto City Gate. In addition productivity gains in the period, although noteworthy, have been insufficient to overcome the impact of inflation on other costs of providing service. In order to maintain its financial integrity in these circumstances, the Company has had no choice but to seek approval for appropriate increases in rates charged to its customers.

On May 16, 1977 the Company applied to the Ontario Energy Board for permission to increase its rates to recover increases in the cost of doing business that were expected to occur in the 1978 fiscal year as well as for the determination of a current allowable rate of return. This application resulted in the approval of two rate increases during the fiscal year–one to generate $12.1 million annually commencing November 1, 1977 and a second to generate $7.3 million annually commencing March 27, 1978. In its Reasons for Decision dated March 7, 1978, the Board based its findings on a projected September 30, 1978 rate base of $734.4 million and determined the allowable rate of return on the rate base to be 10.4%. In its determination, the Board provided for a 14% return on common shareholders' equity. Had the rate increases been in effect for the full fiscal year, it is estimated that they would have generated additional gross revenues of approximately $19.4 million. However, the timing of their implementation during the course of the year effectively lowered the incremental revenue to approximately $13 million.

During the course of the year, the Ontario Energy Board approved two increases in rates to permit the Company to recover corresponding increases in the cost of gas purchased from its supplier, TransCanada. The first increase of approximately 17¢ per Mcf, effective March 27, 1978, permitted the recovery of an increase in cost which was effective February 1, 1978. The delay in the recovery of this increase allowed the Company's customers to receive the benefit of gas previously purchased at lower rates and held in underground storage. The second increase of approximately 13¢ per Mcf was effective August 1, 1978 permitting the recovery of a coincident increase in TransCanada's rates. The benefit of gas purchased at lower rates and held in storage at that time will be given to customers during the 1978-1979 winter heating season.

In order that anticipated increases in costs in 1979 may be recognized in rates to be charged in that fiscal year and to permit a more current allowable rate of return to be established, the Company applied to the Board on August 3, 1978 for permission to further increase its rates. The evidence supporting this application was filed on September 29, 1978. The increase in rates which the Company has requested aggregates $29.7 million and includes the recovery of an increase in the unit cost of gas resulting from the supply/demand imbalance described on page 8 of this report. Because the evidence must be thoroughly examined and tested before the Board issues its final decision, the Company has requested that an interim rate increase of approximately $18 million be granted as early as possible in its 1979 fiscal year. This request is currently being considered by the Board.

Operations

The Company supplies natural gas to its 559,000 customers through a 14,845 kilometre (9,224 miles) network of mains which, when combined with the other facilities associated with the distribution and sale of gas, involve an aggregate investment of over $728 million.

As a responsible public utility, the Company must maintain the safety and integrity of its plant and

provide efficient and high quality service to its customers. In order to preserve these standards in an environment of rapidly increasing prices, the Company continues to place great emphasis on the need for productivity improvement. Several Company-wide programs were introduced during the fiscal year with the objective of establishing more specific targets against which performance may be measured and improved. Employees at all levels in the organization are being encouraged to participate in the development of these targets and to suggest better ways and means of performing their jobs. Considerable attention is being given to the development and refinement of information systems to provide management with more meaningful and timely data to enable it to evaluate better the effectiveness of its actions. One such system to be implemented in 1978-1979 should enable the Company to handle more efficiently the inventory of material which it uses in its business. Also, an integrated customer service system is being designed to improve the handling of customer enquiries and service and should be in operation within the next two years.

During the fiscal year, the connection of 28,888 new customers to the system required capital expenditures of $26 million. An additional $11 million was expended on alterations and replacements to ensure continuity and reliability of service and to accommodate general municipal improvements. In addition to these capital expenditures, the Company invested in exploration activity, gas equipment for rental to customers and other general plant. Total capital expenditures in 1978 amounted to $70.5 million and it is anticipated that $69 million will be spent in 1979.

Operating and maintenance costs amounted to $59 million in 1978, an increase of $6.5 million over last year. These costs include customer service, engineering and planning, billing and collection, accounting functions, marketing, purchasing material and supplies, research and development, personnel administration, computer operation and the cost of general administration.

Other Activities

Research and development activities are essential in an environment where energy is recognized as a finite and costly resource which must be managed prudently. R & D programs sponsored by the gas industry focus on ways and means of increasing the efficiency of gas burning equipment as well as less costly techniques of providing the customer with service. The Company participates in the advancement of technology through programs conducted at a number of leading research establishments, including the Canadian Gas Research Institute, the Ontario Research Foundation, the Institute of Gas Technology and the Thermo Electron Corporation.

With an eye to the future, the Company monitors the development of energy sources which may later substitute for natural gas or compete with it. At the present time it appears that the traditional sources of supply will offer the most economic form of gaseous energy for at least the next decade. Coal gasification technology is available for producing pipeline quality gas and second generation pilot plants are under development in the United States. However, the estimated cost of gas produced in this manner is considerably in excess of the cost of delivered conventional reserves as is the cost of bringing Arctic gas to southern markets. In other fields, the Company continues to evaluate the economics and potential of solar-assisted gas systems and is generating data from three test installations in its service area.

Consumers' consulting activities, although conducted on a limited scale, are both profitable to the Company, and beneficial to the development of personnel. During the past year, work continued on a project for Sonelgaz, an Algerian gas and electric power supplier, covering all aspects of the use of plastic pipe for gas distribution. In Denmark, Oilconsult/Dangroup were assisted in the development of a gas distribution handbook and in Sao Paulo, Brazil, a review of gas distribution practices and procedures was undertaken for Comgas.

Personnel

The theme "Responsible People Working With Dependable Energy" properly places the human element first because an energy source can only be dependable if it is backed by responsible people. Consumers' 2,775 employees recognize the important role they play in the distribution of natural gas and take pride in maintaining a high level of service to customers at all times. In return, the Company strives to provide its staff with secure employment, an opportunity for advancement and just compensation.

A number of in-house development programs are conducted by the Company on a regular basis for the benefit of employees. Courses range from Customer Relations Sensitivity training to the Management of Time. Technical training for servicemen and pipeline construction employees continues. Financial assistance is also available to those in the Company who wish to complete courses at recognized educational institutions. Two hundred and five employees took advantage of this education aid program during 1978.

During the past year the Company negotiated collective agreements with each of its five union locals. Two of these agreements covering a total of 1,240 employees will expire in 1980. Contract negotiations are now in progress with one of the union locals representing 560 employees whose collective agreement expires on January 31, 1979. An agreement with Local 672, International Chemical Workers Union, which expires on November 16, 1978 has not yet been negotiated because its 101 members are seeking an affiliation with the Independent Gas Workers Union. The one remaining collective agreement covering 45 employees of St. Lawrence Gas also expires in 1980.

On October 1, 1978 Consumers' introduced a program to encourage its employees to think creatively about the Company and its activities. The "Innovators' Circle" program provides for the sharing of savings realized from their contributions. To date over 50 suggestions have been submitted under the program and are now being evaluated.

Responsible service to customers is emphasized in every department of the Company. Mrs. Gina Frijio displays this attitude at her post in the Metro Toronto Customer Service Inquiry where she makes sure that service requests are accurately interpreted and dispatched for prompt response. Fluent in English and Italian, Gina joined the Company in 1975.

Home Oil

Consumers' investment in Home Oil Company Limited continues to provide a valuable medium for participation in the growth of Canada's natural resource industry.

Home Oil is a Canadian petroleum company with headquarters in Calgary, Alberta, which engages primarily in the exploration for, and development and production of, hydrocarbons. Its major exploration and production properties are located in Alberta and British Columbia, with production also being obtained from properties located in Saskatchewan, Manitoba and various states in the United States. Home is also active in the Arctic Islands, offshore Newfoundland, the North Sea, Australia, New Zealand and other foreign areas.

In addition to its exploration and production activities, Home is engaged in the transportation of crude oil, natural gas and natural gas liquids and in the marketing and underground storage of liquefied petroleum gas. Other major corporate assets include substantial undeveloped coal properties in southwestern Alberta and southeastern British Columbia. Home also has the right to acquire a 5-1/2% interest in Panarctic Oils Ltd. over a three year period which commenced January 1, 1977 for an aggregate consideration of $30.5 million. As at June 30, 1978, $17.8 million had been expended pursuant to the agreement with Panarctic.

During the past year, Home acquired all of the outstanding shares of Bridger Petroleum Corporation Limited for a total cost of $58.6 million.

Home recently announced its results for the nine-month period ended September 30, 1978 in which net earnings after extraordinary items amounted to $30,782,000 or $3.75 per share as compared to $27,761,000 or $3.39 per share for the comparable period in 1977. Gross revenues increased by 15% to $114,196,000 during this period primarily as a result of crude oil and natural gas price increases. It was also reported that the net flow of funds from operations for the nine-month period was $66,565,000, an increase of 9% over the $61,123,000 for the same period last year.

Home has announced that its capital expenditure program will amount to $132 million in its 1978 fiscal year, an increase of $33 million over the amount expended in 1977. This increase is primarily the result of an increased petroleum and natural gas development program in western Canada and the United States as well as the inclusion of Bridger's capital expenditures from March 1, 1978.

On October 31, 1978, Home received the proceeds from a $60 million debenture issue priced at $99.25 to yield 9.96%. The proceeds were used to repay bank indebtedness primarily incurred in connection with the acquisition of Bridger Petroleum Corporation Limited.

To relieve its over-contracted position, TransCanada PipeLines Limited, the principal buyer of Home's gas production, has entered into agreements, ending in November 1979, with Alberta producers for a temporary reduction in gas deliveries. It is estimated that Home's gas sales will be reduced by approximately 9% from the 1978 minimum contracted quantities. TransCanada will pay for the gas not taken but will actually take delivery of it in subsequent years.

An overview of Home's financial and operating results for its five fiscal years ended December 31, 1977 appears on the facing page of this Report. Also appearing on this page is a table showing selected information on the Company's investment in Home covering Consumers' six fiscal years ended September 30,1978.

Copies of the latest annual report of Home Oil Company Limited may be obtained by writing to: The Secretary, The Consumers' Gas Company.

Table 1. Home Oil Company Limited Five Year Review

Fiscal years ending December 31	1977	1976	1975	1974	1973
Consolidated Statement of Earnings					
(Expressed in Thousands)					
Gross Revenue	$139,020	$119,861	$107,322	$ 76,803	$ 53,534
Net Earnings (Before Extraordinary Items)	$ 38,342	$ 30,436	$ 26,545	$ 17,418	$ 14,512
Earnings per share					
Before Extraordinary Items	$ 4.68	$ 3.73	$ 3.26	$ 2.14	$ 1.90
After Extraordinary Items	$ 4.52	$ 3.73	$ 3.14	$ 1.66	$ 1.86
Balance sheet					
(Expressed in Thousands)					
Working Capital (Deficiency)	$ 21,090	$ 53,470	$ 33,721	$ (16,884)	$ (2,736)
Investment in Other Companies	$ 29,957	$ 22,799	$ 28,113	$ 56,579	$ 79,614
Property, Plant and Equipment–Net	$377,790	$312,447	$283,364	$278,282	$174,262
Long Term Debt (Less Current Maturities)	$ 77,200	$ 85,111	$ 72,600	$ 68,119	$ 32,466
Deferred Income Taxes	$ 75,721	$ 57,192	$ 49,918	$ 47,858	$ 31,974
Minority Interest	$ 6,887	$ 7,360	$ 6,817	$ 6,773	$ 316
Capital Stock	$134,893	$134,310	$133,897	$133,632	$133,573
Retained Earnings	$140,680	$110,447	$ 85,115	$ 63,611	$ 54,167
Exploration and development					
(Expressed in Thousands)					
Exploration Expenditures	$ 75,345	$ 36,486	$ 20,199	$ 31,445	$ 17,720
Development Expenditures	$ 17,359	$ 17,319	$ 9,885	$ 3,745	$ 3,478
Gross Exploration Acreage	34,363	36,264	33,850	43,247	27,651
Net Exploration Acreage	6,971	7,451	7,976	11,797	7,340
Drilling activity					
Gross Working Interest Wells Drilled	166	134	92	107	72
Net Oil Wells	10	5	1	4	4
Net Gas Wells	25	20	8	9	2
Net Dry Wells	17	19	15	25	17
(Excludes wells drilled by others under farmout agreements)					
Proven developed reserves					
(Expressed in Thousands)					
Crude Oil and Natural Gas Liquids–barrels	129,416	140,816	152,725	166,593	155,701
Natural Gas–thousand cubic feet	785,324	758,578	782,570	810,822	726,228
Sulphur–long tons	1,442	1,303	1,786	2,154	1,663
Production and operations					
Crude Oil and Natural Gas Liquids Production–barrels per day	33,613	34,959	39,656	37,803	36,030
Natural Gas Sales–thousand cubic feet per day	115,230	119,165	125,174	119,523	121,495
Sulphur Sales–long tons	50,963	47,211	35,801	54,886	48,884

Table 2. Consumers' Investment in Home Oil Company Limited–Selected Information

Fiscal years ending September 30	1978	1977	1976	1975	1974	1973
Number of Home shares held						
Class A non-voting	1,651,615	826,484	514,084	389,084	389,084	389,084
Class B voting	1,276,788	1,276,788	1,276,788	1,276,788	1,276,788	1,276,788
Class A non-voting obtainable through purchase warrants held	109,965	109,965	109,965	109,965	109,965	
Percent of Class B voting Shares held	49.6	49.6	49.6	49.6	49.6	49.6
Percent participation in equity and earnings	35	25	22	20	20	20
Equity in earnings of Home before extraordinary items	$ 12,281,000	$ 8,195,000	$ 5,614,000	$ 4,580,000	$ 3,335,000	$ 2,382,000
Equity in underlying net assets of Home	$114,781,000	$69,920,000	$52,813,000	$43,863,000	$40,568,000	$38,488,000
Cost to Consumers' of its interest in Home	$112,366,000	$77,901,000	$68,107,000	$64,641,000	$64,603,000	$60,692,000
Dividends received from holdings in Home	$ 2,489,000	$ 1,400,000	$ 750,000	$ 833,000	$ 833,000	$ 833,000

Table 1. This information has been obtained from the 1977 Annual Report of Home Oil Company Limited and a Home Oil prospectus dated September 27, 1978.
Table 2. This data has been provided for Consumers' and its consolidated subsidiary, Cygnus Corporation Limited. Where appropriate an elimination has been made for the minority interest in Cygnus. Following the 1978 year end 230,000 Class A shares were purchased at a cost of $9.8 million thereby increasing the Company's participation in the equity and earnings of Home to 37.9%.

Financial Review

Income before extraordinary items amounted to $50,056,000 in 1978, an increase of $5,352,000 or 12% over 1977. The corresponding earnings per share increased from $2.03 in 1977 to $2.29 this year. Several factors have combined to produce this income improvement in 1978.

Income from utility operations benefited from the weather which was 7% colder than normal and 1.8% colder than that experienced in the previous fiscal year. In many respects, the weather has tended to mask the conservation efforts being made by customers in all classes. This is evident from the residential customer's average use per degree day which declined from 0.0280 Mcf in 1977 to 0.0267 Mcf in 1978. Further, for the first time, current income taxes were reduced in the 1978 fiscal year by $2 million to reflect the application of the 3% inventory allowance. The allowance is based on inventories held for resale, the largest component of which is gas held in underground storage. Finally, two increases in rates, designed to produce additional gross revenue of approximately $19 million on an annual basis, effectively generated $13 million in the fiscal year. These increases were approved by the Ontario Energy Board to offset increases in the Company's cost of doing business and to provide the Company with an opportunity to earn an allowable rate of return of 10.4%.

One of the more significant contributors to earnings growth in 1978, however, was an increase in the Company's equity in the earnings of Home Oil, which rose from $8.2 million in 1977 to $12.3 million in 1978. Of the $4.1 million increase, $1.2 million can be attributed to growth in Home's earnings and $2.9 million to the additional non-voting Class A shares of Home acquired by Consumers' during the 1978 fiscal year. These additional shares increased Consumers' participation in the equity and earnings of Home from 25.2% to 35.1%. Following the year-end, the Company purchased 230,000 Class A shares, thereby increasing its participation to 37.9%.

Gas sales revenue increased by $88.6 million or 14.1% over last year, with total sales reaching $715.2 million. As has been the case in recent years, the majority of this increase can be attributed to the recovery of increased gas costs in 1978.

The net effect of two extraordinary items reflected in the Statement of Income in 1978 resulted in an increase in basic earnings per common share from $2.29 to $2.46. The first extraordinary item arose upon the sale of the Company's western Canadian natural resource holdings to Oakwood Petroleum Ltd. of Calgary on February 14, 1978 for a cash consideration of $20.1 million. The disposal of these assets recognizes the Company's desire to pursue its natural resource interests through investment in Home and avoids possible duplication of effort between the companies. Under the full cost method of accounting for gas and oil operations, the Company had combined, as an area of interest, the cost of its resource holdings in western Canada with exploration expenditures made in the Mackenzie Delta through the Delta 5 Group. The sale to Oakwood removes the reserves previously supporting the combined area of interest and, consequently, nonproductive Delta costs have been written off. The net extraordinary gain resulting from this sale and the associated writeoff amounts to $3.1 million. Consumers' equity in a net extraordinary gain reported by Home in the period increased this gain by $0.4 million.

During the fiscal year, Fingas Investment Limited, a wholly-owned subsidiary of Consumers', privately placed a $50 million preference share issue with the Bank of Montreal. The dividend rate on the preference shares is based on the prime commercial bank lending rate and is equal to one-half the prime lending rate plus 1-1/4%. These funds were raised as part of the Company's ongoing financing program. Following the fiscal year-end, on October 27, 1978, the subsidiary placed an additional $40 million preference share issue with the same bank at a dividend rate equal to one-half the prime lending rate plus 1%.

Inflation – its effect on Consumers'

As individuals we know that the dollar won't buy today what it bought yesterday and those who saved for the future find that the purchasing power of their savings has eroded substantially.

The high rates of inflation which have prevailed in recent years have caused a similar problem for business and Consumers' is no exception. During the last year, the cash flow from operations has grown from $63.8 million to $65.4 million, an increase of $1.6 million. On the surface it would appear that the Company is performing well; however, it is often forgotten that the rapidly rising cost of doing business requires dramatically larger amounts of capital to produce the same level of performance achieved in years past.

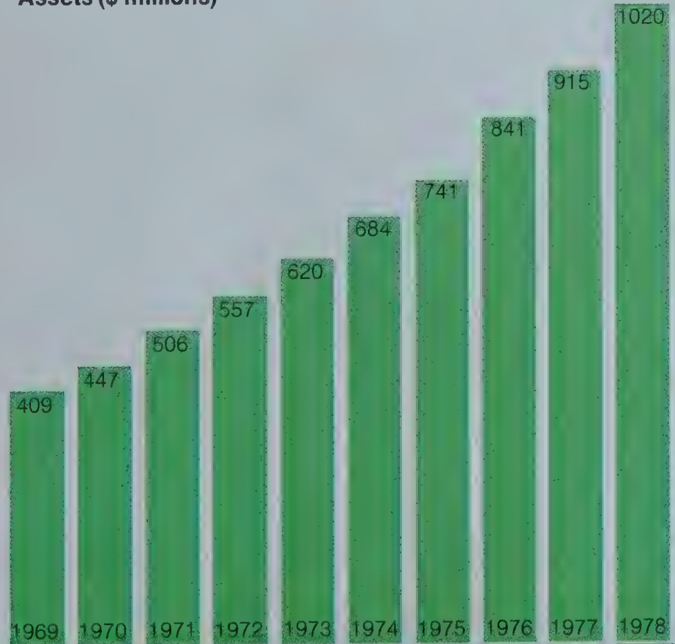
Conventional financial reports do not disclose the extent to which the capital of a business has been eroded by the need to repair and replace property, plant and equipment at much higher costs than prevailed when originally purchased. They also fail to disclose the increased amount of money required to finance higher cost inventories such as Consumers' inventories of pipe, fittings, appliances and gas held in underground storage.

For some time governments, business and accounting associations have attempted to find ways and means in which the impact of inflation can be meaningfully disclosed in financial reports. It is a complex matter because, for each and every dollar spent, a different yardstick is required to measure its diminishing purchasing power. The Ontario Government's Committee on Inflation Accounting concluded that the adoption of a comprehen-

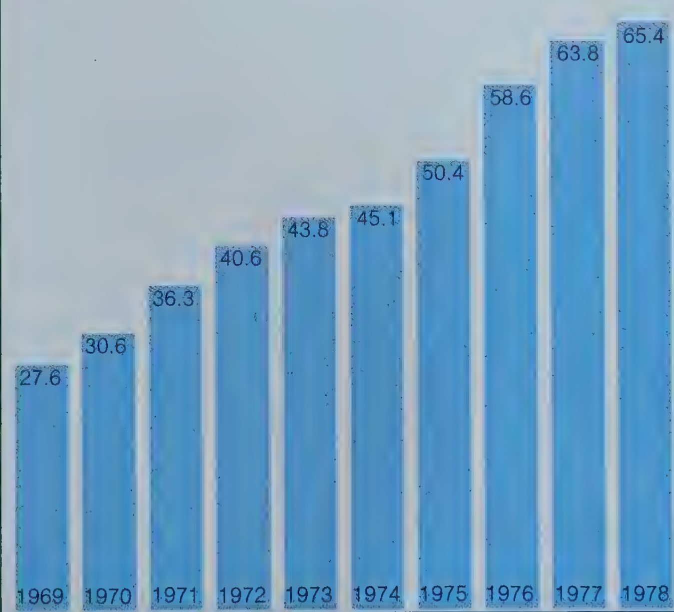
Source of revenue (1978)

Distrubution of revenue (1978)

Assets ($ millions)



Cash flow ($ millions)



sive method of inflation accounting is not appropriate at this time, because its development will require considerably more research than is available at present. However, the committee recommended to business that it adopt an interim method of disclosing the effects of inflation in the form of a Statement of Effects of Inflation on Funds Available for Distribution to Shareholders or for Expansion. This statement, which appears below, can in many respects be misleading, particularly when applied to a utility such as Consumers' where rates are regulated on the basis of historical cost by the Ontario Energy Board. It does, however, illustrate that a substantial portion of funds generated from current operations is required to maintain levels of operations achieved in prior years rather than being available for expansion or distribution to shareholders.

The Consumers' Gas Company
Year ended September 30, 1978
Statement of Effects of Inflation on Funds Available for Distribution to Shareholders or for Expansion

(Expressed to the nearest Million)		(unaudited)
Funds generated from operations		$65
Funds required to finance original cost of productive assets		22
		43
Funds required to finance the increased costs of maintaining productive capacity		
Inventories	$13	
Property, plant and equipment	15	
	28	
Less additional funds which may be available from borrowings	16	12
Funds available for distribution or expansion		$31

Note:
The increased cost of replacing inventories ($13 million) represents the difference between the historical cost and current cost of goods sold at the date of sale.
The increased cost of maintaining the operating capacity of productive assets ($15 million) represents the difference between depreciation determined on a historical cost basis and depreciation indexed for inflation, using the Gross National Expenditure Implicit Price Index.
The extent to which additional funds may be available from borrowings ($16 million) is based on the ratio of equity to non-equity capital at the beginning of the year on the assumption that this ratio is maintained.

In this statement, funds generated from operations as reported in the conventional "Consolidated Statement of Changes in Financial Position" are reduced by the amounts necessary to finance
(1) the original cost of productive assets consumed in current operations,
(2) the increased cost of replacing property, plant and equipment previously purchased at lower cost, and
(3) the increased cost of replacing inventories previously purchased at lower cost.

As described in the note to the statement, it is assumed that additional funds may be available from borrowings to offset the funds required to finance the increased cost of maintaining productivity. The basis of this assumption is not necessarily true since Consumers' must meet certain tests contained in trust deeds before it can issue additional debt. The net result of these adjustments is that of the $65 million of reported funds generated from operations, $34 million has been consumed by the maintenance of productive capacity and only $31 million remains for distribution to shareholders or for expansion of the business. Obviously, $65 million will not purchase today what it purchased yesterday. Whether or not the impact of inflation has been as severe on the Company as the statement suggests depends on the validity of the methods used in the foregoing calculation.

The Company has presented its opinions on proposals for financial reporting related to the impact of inflation to the Accounting Research Committee of the Canadian Institute of Chartered Accountants and to the Treasurer of Ontario. It will continue to participate actively in studies to develop improved reporting methods.

An active exploration program was undertaken by the Company in 1978. Underwater Gas, a subsidiary company, drilled 52 wells in Lake Erie, 17 of which will be connected to a new 50 kilometre pipeline to be brought on stream next year. Aboard the Mr. Neil, one of three Company rigs on the lake, are from left to right, Gerry Funk, Peter Mikkelsaar and Bryen Murphy.

Consolidated Balance Sheet

The Consumers' Gas Company

(Expressed in Thousands)	September 30 1978	1977
Assets		
Current Assets		
Cash and deposits	$ 4,668	$ 5,489
Accounts receivable	65,206	71,685
Materials and supplies	8,175	6,086
Gas stored underground	138,144	96,116
Prepaid expenses	3,561	2,456
	219,754	181,832
Investments		
Home Oil Company Limited (note 3)	118,381	73,520
Tecumseh Gas Storage Limited and other companies	8,775	9,708
Sogepet Limited	954	954
	128,110	84,182
Property, Plant and Equipment (note 4)	792,018	746,922
Accumulated depreciation and depletion	143,518	127,453
	648,500	619,469
Other Assets and Deferred Charges		
Mortgages and non-current receivables	8,112	16,791
Property held for resale and other assets	1,792	2,155
Deferred gas costs (note 5)	5,077	5,696
Unamortized debt costs	3,978	4,543
Other deferred charges	4,207	1,784
	23,166	30,969
	$1,019,530	$916,452

Approved by the Board November 6, 1978:

A.R. Poyntz, Director
G.E. Creber, Director

(Expressed in Thousands)	September 30 1978	1977
Liabilities		
Current Liabilities		
Bank borrowings	$ 8.459	$ 13.513
Notes payable	81.500	51.322
Accounts payable and accrued	77.443	63.484
Accrued interest on long term debt	9.986	7.275
Taxes payable	11.323	4.182
Dividends payable	6.599	6.289
Funded debt payable within one year	3.198	13.004
	198.508	159.069
Long Term Debt (note 6)		
Funded debt	420.681	426.648
Other	2.991	6.350
	423.672	432.998
Deferred Income Taxes	24.361	28.253
Minority Interest in Subsidiary Company	1.612	1.479
Preference Shares of Subsidiary Company (note 7)	50.000	—
Shareholders' Equity		
Capital stock		
Preference shares (note 8)	36.863	37.422
Common shares (note 9)		
Authorized – 75.000.000 shares without par value		
Issued – 20.669.084 shares (1977 – 20.652.710 shares)	125.491	125.280
	162.354	162.702
Contributed surplus (note 8)	3.874	3.745
Appraisal adjustment	13.189	13.489
Retained earnings	141.960	114.717
	321.377	294.653
	$1.019.530	$916.452

Consolidated Statement of Income

The Consumers' Gas Company

(Expressed in Thousands)	Years ended September 30 1978	1977
Revenue		
Gas sales	$715,242	$626,676
Other	28,046	23,146
	743,288	649,822
Costs and expenses		
Gas costs	558,506	479,646
Operation and maintenance	58,859	52,362
Depreciation and depletion	22,481	19,908
Municipal and other taxes	8,488	7,821
Interest on long term debt	39,507	35,620
Other interest and finance costs	5,234	3,733
	693,075	599,090
	50,213	50,732
Equity in earnings before extraordinary items		
Home Oil Company Limited	12,281	8,195
Tecumseh Gas Storage Limited and other companies	1,199	1,628
Income before income taxes and extraordinary items	63,693	60,555
Income taxes		
Current	11,617	11,593
Deferred	2,020	4,258
	13,637	15,851
Income before extraordinary items	50,056	44,704
Extraordinary items (note 10)	3,569	(7,379)
Net income	$ 53,625	$ 37,325
Basic earnings per common share (note 11)		
Income before extraordinary items	$ 2.29	$ 2.03
Net income	$ 2.46	$ 1.67
Fully diluted earnings per common share (note 11)		

Consolidated Statement of Retained Earnings

The Consumers' Gas Company

(Expressed in Thousands)	September 30 1978	1977
Balance at beginning of year	$114,717	$102,220
Net income	53,625	37,325
Appraisal adjustment transfer	300	302
	168,642	139,847
Deduct		
Dividends:		
Preference shares	2,834	2,832
Common shares	23,552	22,298
Share issue expense	296	—
	26,682	25,130
Balance at end of year	$141,960	$114,717

Consolidated Statement of Changes in Financial Position

The Consumers' Gas Company

(Expressed in Thousands)	Years ended September 30 1978	1977
Working Capital Was Provided From		
Operations		
Income before extraordinary items	$ 50,056	$ 44,704
Charges (credits) not affecting working capital		
Depreciation and depletion	22,481	19,908
Deferred income taxes	2,020	4,258
Excess of equity in earnings over dividends	(10,878)	(7,669)
Amortization of deferred charges and other items	1,725	2,629
	65,404	63,830
Issue of long term debt	—	70,000
Issue of preference and common shares for cash	50,205	2,772
Reduction in mortgages and non-current receivables and other assets, net	8,653	14,017
Sale of Western Canada resource properties, net	13,119	—
Sale and redemption of investments	2,001	9,357
	139,382	159,976
Working Capital Was Used For		
Additions to property, plant and equipment	70,509	58,880
Investment in shares of Home Oil Company Limited	34,438	9,748
Reductions in non-current portion of long term debt	9,326	48,660
Dividends on preference and common shares	26,386	25,130
Other items	240	4,085
	140,899	146,503
Increase (Decrease) in Working Capital	$ (1,517)	$ 13,473
Changes in Components of Working Capital		
Increase (decrease) in current assets		
Cash and deposits	$ (821)	$ 3,155
Accounts receivable	(6,479)	35,243
Income taxes recoverable	—	(5,143)
Materials and supplies	2,089	(608)
Gas stored underground	42,028	19,931
Prepaid expenses	1,105	172
	37,922	52,750
Increase (decrease) in current liabilities		
Bank borrowings	(5,054)	5,820
Notes payable	30,178	11,322
Accounts payable and accrued	13,959	9,673
Accrued interest on long term debt	2,711	38
Taxes payable	7,141	2,821
Dividends payable	310	473
Funded debt payable within one year	(9,806)	9,130
	39,439	39,277
Increase (Decrease) in Working Capital	$ (1,517)	$ 13,473

Notes to Consolidated Financial Statements
The Consumers' Gas Company

Note 1 Summary of Significant Accounting Policies
The companies are primarily engaged in the distribution of natural gas to residential, commercial, industrial and other customers in areas of central and eastern Ontario, in and around Hull, Quebec and part of northern New York State. The companies are subject to the jurisdiction of certain regulatory bodies on a number of matters such as rates to be charged for the sale of gas, construction, operations and accounting practices.

Principles of Consolidation
The consolidated financial statements include the accounts of all subsidiary companies since dates of acquisition. The major wholly-owned operating subsidiary companies are Consumers' Realty Limited, Niagara Gas Transmission Limited, St. Lawrence Gas Company Inc., Shorgas Limited, Société Gazifère de Hull, Inc., and Underwater Gas Developers Limited. Cygnus Corporation Limited is 96% owned by the company.
The equity method of accounting is used for investments in Home Oil Company Limited (note 3) and Tecumseh Gas Storage Limited and other companies 50% owned.
Dividends on investments which are accounted for using the equity method of accounting were $2,524,000 in 1978 and $2,129,000 in 1977.
The difference between the cost of investments in shares of companies and the net book value of such shares is attributed to the fair value of the related assets with any excess being accounted for as goodwill. For years subsequent to 1973, goodwill has been insignificant and charged directly to earnings. Prior to this, goodwill was written off and charged to retained earnings.
At September 30, 1978, an unamortized difference of $6,566,000 between the cost of the shares of Home Oil Company Limited and the net book value of such shares has been attributed to proven reserves and is being charged against the equity in earnings of Home over the life of such reserves.

Materials and Supplies
Materials and supplies consisting primarily of merchandise for resale and pipe and general stock for construction and maintenance are valued at the lower of cost and replacement cost.

Gas Stored Underground
Inventory of gas held in underground storage is valued at the lower of cost determined on the first-in first-out basis and net realizable value.

Property, Plant and Equipment
Property, plant and equipment is stated at cost except for gas utility plant and equipment acquired by the company prior to 1956 which, at September 30, 1978, is stated at a 1955 appraised value of $41,804,000. The appraisal increment is shown in shareholders' equity as appraisal adjustment and is being transferred to retained earnings over the remaining service life of such assets.
Depreciation is calculated on the straight line service life basis using the recorded values of depreciable properties. Rates used for the major components of utility plant are:

Distribution systems mains	1.6%
Customer service lines	3.3%
Measuring and regulating equipment	6.1%
Meters	2.2%
Rental equipment on customers' premises	5.6%

These rates, together with appropriate rates used for other items of plant, are equivalent to a composite rate on all depreciable assets of approximately 3%.
Property, plant and equipment includes all costs related to construction. The cost of funds used for the purpose of construction and included in property, plant and equipment was $236,000 in 1978 and $200,000 in 1977. Overhead costs capitalized were $4,619,000 in 1978 and $4,170,000 in 1977.
Maintenance and repairs are generally charged to current operating expense. However, improvements that increase the service capacity or prolong the service life beyond that contemplated in the established depreciation rates are capitalized.
The full cost method of accounting is followed for gas and oil exploration and development operations whereby all costs of exploring for and developing gas and oil reserves are capitalized as part of property, plant and equipment. Such costs include the cost of drilling both productive and non-productive wells and overhead expenses related to exploration and development activities. These costs are depleted using the unit of production method based upon an estimate of proven recoverable reserves.

Property Held for Resale and Other Assets

Property held for resale and other assets are valued at the lower of cost and net realizable value

Financing Costs

The costs incurred on issuing long term debt are deferred and charged against income over the life of each issue while the costs of issuing shares are charged to retained earnings in the year incurred. Gains realized on purchases for redemption are applied against the unamortized debt costs related to each issue. When the deferred costs related to each issue are eliminated gains are included in income. Amounts so included were $406,000 in 1978 and $387,000 in 1977

Revenue Recognition

The company follows an accepted practice in the gas utility industry whereby it records monthly gas sales on the basis of meter readings or estimates made throughout the month. As a result, although each fiscal year includes twelve months gas sales and costs, there is at the end of each accounting period gas delivered the cost of which was charged to expense, while the related revenue is not recorded until the following period when billed

Income Taxes

Income taxes are recorded on a tax allocation basis except in regulated gas utility operations when rate and revenue structures are designed and approved not to recover deferred taxes in current revenues. Such deferred taxes not recovered in revenues and therefore not recorded in the accounts amounted to $6 400 000 for 1978 ($7 800 000 for 1977) and to an accumulated amount of $113,100 000 at September 30, 1978

Comparative Figures

The 1977 financial statements have been reclassified to conform with the presentation adopted for 1978

Note 2 Change in Accounting Policy–Translation of Foreign Currencies

The Canadian Institute of Chartered Accountants has recently announced accounting recommendations related to the translation of foreign currencies. The company has retroactively adopted these recommendations and translates cash, receivables, payables and assets and liabilities carried at current prices at current rates of exchange. All other assets and liabilities are translated at applicable historical rates. Revenues and expenses are translated at rates prevailing at the time of the transactions with the exception of depreciation, depletion and amortization which reflect historical rates used for the related assets. Foreign currency gains and losses are included in the determination of net income in the current period except for unrealized gains and losses related to monetary assets and liabilities with a fixed or ascertainable life extending beyond the end of the following fiscal year. At September 30, 1978 unrealized foreign currency losses of $3 980 000 ($1 353 000 at September 30, 1977) were deferred and will be charged to income over the remaining life of the related assets and liabilities. This change has been applied retroactively although the prior year's income and retained earnings have not been restated since its effect on that year and the accumulated effect to October 1, 1977 are not significant

Note 3 Investment in Home Oil Company Limited

The investment in Home Oil Company Limited is comprised of the following

(Expressed in Thousands)	1978	1977
Shares	$114 781	$ 69 920
Class A share purchase warrants at cost	3 600	3 600
	$118 381	$ 73 520

The companies own 1 651 615 Class A shares (826,484 at Setpember 30, 1977) and 1,276,788 Class B voting shares of Home. Through these holdings the company controls 49.6% of Home's voting shares and participates in approximately 35.1% (25.2% at September 30, 1977) of Home's equity and earnings. Acquisition of shares subsequent to September 30, 1978 is described in note 15

The Class A share purchase warrants are exercisable on or before April 30, 1980 as follows: 76,975 shares at $14.55 U.S. per share and 32,990 shares at $17.66 U.S. per share

Note 4 Property, Plant and Equipment

The following is a summary of the property, plant and equipment and related accumulated depreciation and depletion:

(Expressed in Thousands)	1978 Asset	1978 Accumulated Depreciation and Depletion	1977 Asset	1977 Accumulated Depreciation and Depletion
Gas utility plant including distribution, transmission and underground storage facilities, land, structures, pipelines, permissions, equipment, etc.	$728,754	$132,010	$676,240	$118,197
Natural resource properties including wells, gathering lines and exploration and development costs	52,030	6,064	59,706	4,704
Drilling and related equipment	8,133	4,761	7,984	4,356
Other	3,101	683	2,992	196
	$792,018	$143,518	$746,922	$127,453

Note 5 Deferred Gas Costs

During 1972 and 1973, TransCanada PipeLines Limited was paid an additional $7,263,000 on certain volumes of gas delivered in that period to enable it to finance the construction of additional pipeline facilities necessary to deliver the gas volumes required by the company. In accordance with Accounting Orders made by the Ontario Energy Board, this amount was deferred in the accounts and is being amortized over a period of ten years to September 30, 1984.

Note 6 Long Term Debt

Funded debt	Maturity	Amount Outstanding 1978	Amount Outstanding 1977
The Consumers' Gas Company		(Expressed in Thousands)	
First Mortgage Sinking Fund Bonds			
5% Series B	1978	$ —	$ 10,000
5½% Series C	1983	12,598	13,448
4.85% Series D (U.S. $10,800,000; $11,100,000 in 1977)	1985	12,797	11,916
8⅝% Series E	1993	57,241	58,227
8% Series F (U.S. $14,538,000; $14,778,000 in 1977)	1993	17,225	15,863
8¾% Series G	1994	19,415	19,715
9⅛% Series H	1995	29,600	30,000
11⅜% Series I	1994	14,815	15,000
11½% Series J	1996	20,250	20,250
10⅞% Series K	1996	50,000	50,000
Sinking Fund Debentures			
7%	1979	4,000	4,689
6½%	1981	6,513	7,263
6%	1982	5,469	5,943
6¼%	1984	6,635	7,072
6⅛%	1985	13,631	14,514
8⅝%	1991	44,119	45,543
8½%	1992	29,263	30,071
9.60%	1997	70,000	70,000
Convertible Sinking Fund Debentures			
6% (convertible into common shares at $21.922 per share)	1982	7,777	7,777
St. Lawrence Gas Company Inc.			
First Mortgage Sinking Fund Bonds			
5¼% (U.S. $2,136,000; $2,208,000 in 1977)	1988	2,531	2,361
		423,879	439,652
Less payable within one year included in current liabilities		3,198	13,004
		$420,681	$426,648

The First Mortgage Sinking Fund Bonds are secured by a first fixed and specific mortgage, pledge and charge on specified assets and a first floating charge on the other assets of the company. The Sinking Fund Debentures and Convertible Sinking Fund Debentures are unsecured

The aggregate principal of funded debt maturities and sinking fund requirements amount to approximately $15,615,000 in 1980, $19,196,000 in 1981, $19,207,000 in 1982 and $25,001,000 in 1983

Other	1978	1977
	(Expressed in Thousands)	
Promissory note of subsidiary company maturing in 1979	$ —	$2,500
Term bank loans of subsidiary company maturing at various dates up to 1979	1,800	2,450
Mortgages payable and sundry indebtedness maturing at various dates up to 1995	1,191	1,400
	$2,991	$6,350

Note 7 Preference Shares of Subsidiary Company

During 1978 a wholly-owned subsidiary issued $50,000,000 cumulative, redeemable, non-voting, no par value preference shares. Dividends are payable on these shares at an annual rate of one-half of the published prime lending rate plus 1¼%. These shares must be redeemed at paid up value by 1988 and redemption requirements for the next five years are $2,000,000 annually to 1982 and $6,000,000 in 1983. Proceeds from the issue of these shares were advanced to The Consumers' Gas Company which may, in certain circumstances, be required to purchase these shares. Preference shares issued subsequent to September 30, 1978 are described in note 15

Note 8 Preference Shares

Authorized

Group 1 – 142,158 shares of $100 each, issuable in series
Group 2 – 5,996,000 shares of $25 each, issuable in series
Group 3 – 7,999,350 shares of $20 each, issuable in series

Outstanding	1978 Shares	1978 Amount	1977 Shares	1977 Amount
	(Dollars Expressed in Thousands)			
Group 1				
5½% cumulative Series A, redeemable at a premium of 1%	40,171	$ 4,017	41,865	$ 4,187
5½% cumulative Series B, redeemable at a premium reducing from 2% to 1%	80,612	8,061	81,849	8,185
5% cumulative Series C, redeemable at a premium reducing from 3% to 1%	21,375	2,138	23,975	2,397
Group 2				
9¼% cumulative, First Series, convertible into common shares at $12.50 per share, redeemable at par	106,400	2,660	106,400	2,660
Group 3				
9% cumulative, First Series, convertible into common shares at $15.00 per share, redeemable at varying premiums reducing from $1.40	999,350	19,987	999,650	19,993
		$36,863		$37,422

Retirement funds for the purchase of preference shares Group 1 are required to be maintained in the amounts of $100,000 for the Series A shares, $200,000 for the Series B shares, and $60,000 for the Series C shares. These funds are required to be augmented on January 2 of each year by the amounts necessary to re-establish them at the original amounts to the extent that this obligation has not been satisfied by purchase of preference shares for cancellation in prior years. At September 30, 1978 no balance remained in the retirement funds as they had been fully used to purchase preference shares for cancellation

A retirement fund for the purchase of preference shares Group 3, First Series will begin operating in 1980

During the year 1,694 Series A, 1,237 Series B and 2,600 Series C preference shares having an aggregate par value of $553,100 were purchased for cancellation for $424,100. The amount of $129,000 by which the par value exceeded the purchase price is included in contributed surplus

Note 9 Common Shares

During the year 15,975 shares were issued for cash under the Restricted Stock Option Plan and 399 shares were issued on conversion of $6,000 of convertible preference shares.

There are 354,758 common shares reserved for issue on conversion of the outstanding 6% Convertible Sinking Fund Debentures.

Under the terms of the Restricted Stock Option Plan approved by the common shareholders on November 19, 1956, 890,874 common shares have been set aside for purchase by key employees. At September 30, 1978, 817,992 shares had been issued under this plan and options are outstanding on 5,607 shares at $14.07 per share and 46,300 shares at $12.00 per share. The last of these options expires on July 5, 1982. A total of 100 employees hold options under the Restricted Stock Option Plan.

Note 10 Extraordinary Items

	1978	1977
	(Expressed in Thousands)	
Gain on disposition of Western Canada resource property area of interest net of income taxes of $109,000	$3,121	$ —
Share of extraordinary gains of Home Oil Company Limited	448	404
Loss on sale of common shares of Union Gas Limited net of income taxes of $206,000	—	(6,480)
Write-off of investment in Gas Arctic-Northwest Project Study Group net of income taxes of $4,013,000	—	(4,039)
Gain on sale of 19 Toronto Street net of income taxes of $40,000	—	584
Gain on sale of Community Antenna Television Ltd.	—	2,152
Net extraordinary gain (loss)	$3,569	$(7,379)

Note 11 Earnings per Share

Earnings per share have been calculated on the weighted average number of common shares outstanding during the year, being 20,658,821 for 1978 and 20,645,459 for 1977.

Fully diluted earnings per common share assumes the conversion of the convertible debentures, the convertible preference shares and the exercise of the stock options from dates of issue. For 1978 fully diluted earnings per common share are:

Income before extraordinary items	$2.19
Net income	$2.35

Note 12 Remuneration of Directors and Senior Officers

In 1978 the companies paid $1,004,000 to directors and senior officers of the company (1977 $1,052,000).

Note 13 Retirement Plans

The company and certain subsidiaries have contributory retirement plans to cover substantially all employees. Normal retirement benefits under these plans commence at age 65. Based on actuarial advice an unfunded past service obligation of approximately $8,800,000 at January 1, 1978 is being funded over 12 years and charged to operations in annual amounts of $1,016,000. Amounts estimated in the actuarial calculations to be sufficient to fund all current costs of the plans are charged to operations in the year incurred.

Note 14 Anti-Inflation Program

The companies have complied with the Anti-Inflation Act and guidelines with respect to prices and profit, employee compensation and dividends.

The federal government has announced that the program will be phased out within the next year. Restrictions expire on October 14, 1978 with respect to dividends and at varying dates for other activities.

Note 15 Commitments and Subsequent Events

The company has undertaken to make sufficient use of the facilities of Tecumseh Gas Storage Limited to generate the revenue required by Tecumseh to meet its obligations under Trust Indentures relating to its debentures. In the event that there is any deficiency, the company will be required to purchase subordinated securities in an amount to make up the deficiency. The management of the company is of the opinion that Tecumseh will generate sufficient revenue to meet its obligations.

Application has been made to the Ontario Energy Board for an increase in rates to recover, amongst other increases in costs, a potential increase in the cost of purchased gas which will arise if the company is unable to take all of its contracted for volumes from TransCanada PipeLines during 1979. The consequent increase in the cost on volumes expected to be taken is estimated to aggregate $7.6 million over what gas costs would otherwise be for the 1979 year.

Subsequent to September 30, 1978 an additional 230,000 Class A shares of Home Oil Company Limited were acquired for a consideration of $9.8 million. This acquisition will increase the company's participation in Home's equity and earnings to 37.9%.

Subsequent to September 30, 1978 a subsidiary company issued additional preference shares for a consideration of $40 million. Dividends are payable on these shares at an annual rate of one-half of the published prime lending rate plus 1%. These shares must be redeemed by 1988.

Auditors' Report

To the Shareholders of The Consumers' Gas Company

We have examined the consolidated balance sheet of The Consumers' Gas Company as at September 30, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied after giving retroactive effect to the change in accounting for the translation of foreign currencies referred to in note 2, on a basis consistent with that of the preceding year.

Thorne Riddell & Co

Chartered Accountants

Toronto, Canada

November 6, 1978

Financial Statistics

Condensed Consolidated Balance Sheet ($000's)	1978	1977	1976
Assets			
Current assets (Note 1)	$ 219,754	$181,832	$129,082
Investments	128,110	84,182	79,395
Property, plant and equipment	792,018	746,922	694,950
Accumulated depreciation and depletion	143,518	127,453	113,125
	648,500	619,469	581,825
Other assets and deferred charges	23,166	30,969	49,004
	$1,019,530	$916,452	$839,306
Liabilities			
Current liabilities	$ 198,508	$159,069	$119,792
Long term debt	423,672	432,998	408,969
Deferred income taxes	24,361	28,253	28,935
Minority interest in subsidiary companies	1,612	1,479	1,295
Preference shares of subsidiary company	50,000	—	—
Shareholders' Equity			
Preference shares	36,863	37,422	35,119
Common shares	125,491	125,280	125,164
Contributed surplus	3,874	3,745	3,633
Appraisal adjustment	13,189	13,489	14,179
Retained earnings	141,960	114,717	102,220
	321,377	294,653	280,315
	$1,019,530	$916,452	$839,306

Note 1: For years prior to 1975 current assets include the long term portion of accounts receivable on the merchandise finance plan.

1975	1974	1973	1972	1971	1970	1969
$ 97,164	$ 81,475	$ 63,132	$ 51,426	$ 52,943	$ 58,734	$ 44,189
72,141	67,917	64,307	59,051	45,532	17,749	17,058
647,442	601,649	549,692	506,172	460,944	419,572	394,488
101,312	90,898	82,639	77,005	68,420	60,966	58,864
546,130	510,751	467,053	429,167	392,524	358,606	335,624
25,942	24,540	25,150	16,374	13,771	11,239	11,766
$741,377	$684,683	$619,642	$556,018	$504,770	$446,328	$408,637
$111,027	$117,133	$ 71,476	$105,603	$ 76,926	$ 81,322	$ 45,136
341,447	363,375	356,531	260,609	235,289	184,822	190,554
21,382	18,403	15,922	12,016	8,846	6,529	5,389
1,221	1,197	2,114	12,482	15,549	727	—
35,376	15,790	16,012	16,320	16,753	17,176	17,645
125,161	72,940	72,940	72,926	72,712	72,578	72,418
3,523	3,364	3,293	3,233	3,195	3,136	3,025
14,494	14,808	15,024	15,761	17,576	17,925	18,498
87,746	77,673	66,330	57,068	57,924	62,113	55,972
266,300	184,575	173,599	165,308	168,160	172,928	167,558
$741,377	$684,683	$619,642	$556,018	$504,770	$446,328	$408,637

Financial Statistics

Consolidated Statement of Income ($000's)	1978	Years Ended September 30 1977	1976
Gas Sales			
Residential	$212,663	$180,373	$137,549
Commercial	232,797	200,603	153,935
Industrial and other	269,782	245,700	206,557
Total gas sales	715,242	626,676	498,041
Other revenue	28,046	23,146	24,725
	743,288	649,822	522,766
Gas costs	558,506	479,646	375,242
Operation and maintenance	58,859	52,362	45,904
Depreciation and depletion	22,481	19,908	18,191
Municipal and other taxes	8,488	7,821	6,583
Interest and amortization–long term debt	39,507	35,620	31,109
Other interest	5,234	3,733	3,217
	693,075	599,090	480,246
	50,213	50,732	42,520
Equity in earnings before extraordinary items			
Home Oil Company Limited	12,281	8,195	5,614
Tecumseh Gas Storage Limited and other companies	1,199	1,628	1,286
Income before income taxes and extraordinary items	63,693	60,555	49,420
Income taxes			
Current	11,617	11,593	4,585
Deferred	2,020	4,258	7,554
	13,637	15,851	12,139
Income before extraordinary items	50,056	44,704	37,281
Extraordinary items	3,569	(7,379)	147
Net income for the year available for dividends and reinvestment in the business	53,625	37,325	37,428
Preference share dividends	2,834	2,832	2,626
Net income available for common share dividends and reinvestment in the business	$ 50,791	$ 34,493	$ 34,802
Basic earnings per common share			
Before extraordinary items	$ 2.29	$ 2.03	$ 1.68
After extraordinary items	$ 2.46	$ 1.67	$ 1.69
Fully diluted earnings per common share			
Before extraordinary items	$ 2.19	$ 1.95	$ 1.64
After extraordinary items	$ 2.35	$ 1.63	$ 1.65

1975	1974	1973	1972	1971	1970	1969
$102,859	$ 84,061	$ 75,271	$ 70,122	$ 67,325	$ 65,177	$ 59,737
107,191	77,333	62,603	55,178	46,406	40,041	33,934
146,634	101,004	79,766	72,113	44,549	39,599	36,086
356,684	262,398	217,640	197,413	158,280	144,817	129,757
23,393	20,358	17,330	15,036	13,011	11,573	9,788
380,077	282,756	234,970	212,449	171,291	156,390	139,545
244,605	163,565	127,425	115,596	85,413	77,294	68,753
44,063	39,385	34,553	31,513	27,023	24,107	21,088
17,440	15,954	14,745	13,049	11,237	10,114	9,259
5,740	4,770	4,271	4,261	4,177	3,865	3,725
27,585	26,608	22,985	15,878	12,922	10,389	9,463
3,524	3,187	1,995	2,865	2,254	2,116	1,683
342,957	253,469	205,974	183,162	143,026	127,885	113,971
37,120	29,287	28,996	29,287	28,265	28,505	25,574
4,580	3,335	2,382	915	116	—	—
1,623	1,194	1,051	876	832	635	567
43,323	33,816	32,429	31,078	29,213	29,140	26,141
7,298	2,627	2,419	3,556	3,904	7,841	7,440
2,979	2,918	3,906	3,170	2,317	1,140	280
10,277	5,545	6,325	6,726	6,221	8,981	7,720
33,046	28,271	26,104	24,352	22,992	20,159	18,421
(529)	(745)	1,621	—	—	(367)	—
32,517	27,526	27,725	24,352	22,992	19,792	18,421
2,496	862	875	901	919	940	964
$ 30,021	$ 26,664	$ 26,850	$ 23,451	$ 22,073	$ 18,852	$ 17,457
$ 1.68	$ 1.57	$ 1.44	$ 1.34	$ 1.26	$ 1.10	$ 1.00
$ 1.65	$ 1.52	$ 1.53	$ 1.34	$ 1.26	$ 1.08	$ 1.00
$ 1.46	$ 1.45	$ 1.34	$ 1.25	$ 1.18	$ 1.04	$ .97
$ 1.43	$ 1.41	$ 1.42	$ 1.25	$ 1.18	$ 1.02	$ .97

Financial Statistics

Consolidated Statement of Changes in Financial Position ($000's)	1978	Years Ended September 30 1977	1976
Source of Working Capital			
Cash flow from operations	$ 65,404	$ 63,830	$ 58,565
Issue of long term debt	—	70,000	80,000
Issue of peference and common shares	50,205	2,772	—
Sale of investment in shares of other companies	2,001	9,357	1,563
Reduction (investment) in mortgages and non-current receivables and other assets, net	8,653	14,017	(21,240)
Sale of Western Canada Resource Properties, net	13,119	—	—
Issue of common shares for convertible debentures	—	—	—
	139,382	159,976	118,888
Use of Working Capital			
Additions to property, plant and equipment	70,509	58,880	53,578
Investment in shares of subsidiary companies adjusted for working capital position at dates of acquisition	—	—	—
Investment in shares and warrants of Home Oil Company Limited	34,438	9,748	3,441
Investment in shares of other companies	—	—	—
Investment in Gas Arctic–Northwest Project Study Group	—	2,375	1,989
Deferral of increased cost of gas	—	—	—
Other reductions in non-current portion of long term debt excluding mortgages payable	9,326	48,660	11,036
Preference shares purchased for cancellation	553	241	144
Capital stock and debt issue costs, net	296	1,586	1,139
Dividends on preference and common shares	26,386	25,130	23,269
Decrease in mortgages payable, net	—	20	20
Miscellaneous items	(609)	(137)	1,118
Exchange of convertible debentures for common shares	—	—	—
	140,899	146,503	95,734
Increase (decrease) in working capital position	$ (1,517)	$ 13,473	$ 23,154

1975	1974	1973	1972	1971	1970	1969
$ 50,447	$ 45,053	$ 43,825	$ 40,613	$ 36,324	$ 30,602	$ 27,572
41,900	30,000	104,728	32,000	50,000	—	60,000
20,000	—	14	212	134	160	47
—	3,552	—	—	—	—	—
2,697	1,134	800	206	(482)	(370)	2,545
—	—	—	—	—	—	—
52,221	—	—	—	—	—	—
167,265	79,739	149,367	73,031	85,976	30,392	90,164
53,937	61,385	54,621	51,176	43,569	33,051	33,087
43	344	15,405	4,184	20,558	338	—
—	3,600	—	21,070	—	—	—
5	898	1,128	101	80	—	—
1,288	828	1,572	—	—	—	—
—	—	3,703	3,560	—	—	—
10,232	23,610	9,947	6,616	5,073	4,856	5,068
255	151	248	377	423	469	280
1,909	338	1,503	660	1,014	127	1,399
20,789	16,796	16,284	16,307	15,263	13,873	13,541
40	96	(436)	(382)	(199)	49	1,163
(926)	(993)	(441)	(444)	1,590	(730)	(1,052)
52,221	—	—	—	—	—	—
139,793	107,053	103,534	103,225	87,371	52,033	53,486
$ 27,472	$ (27,314)	$ 45,833	$ (30,194)	$ (1,395)	$ (21,641)	$ 36,678

Operating Statistics

	1978	1977	1976
Gas supply and sendout–MMcf			
Natural gas purchased	316,739	321,494	308,376
Natural gas produced	3,588	2,011	1,622
Total gas supply	320,327	323,505	309,998
Gas into storage	(63,980)	(65,522)	(51,456)
Gas out of storage	55,327	61,772	51,055
Total gas sendout	311,674	319,755	309,597
Gas sales to customers–MMcf			
Residential	74,174	73,265	65,935
Commercial	101,431	101,407	93,835
Industrial and other	133,970	143,992	147,007
Total sales	309,575	318,664	306,777
Use by company	378	383	424
Unbilled and unaccounted for	1,721	708	2,396
	311,674	319,755	309,597
Maximum daily sendout Mcf	1,755,800	1,673,000	1,589,700
Minimum daily sendout Mcf	252,600	243,100	320,300
Average daily sendout Mcf	853,000	876,000	846,000
Degree day deficiency (note 1)	4,434	4,355	4,026
Number of active customers (year end)			
Residential	504,725	483,143	462,195
Commercial	48,139	45,951	43,214
Industrial and other	5,734	5,734	5,768
Total	558,598	534,828	511,177
Cost to customers			
Average revenue per Mcf			
Residential	$2.86	$2.46	$2.09
Commercial	$2.30	$1.98	$1.64
Industrial and other	$2.01	$1.71	$1.41
Average use per residential customer–Mcf	145.4	150.3	141.4
Number of employees (year end)	2,775	2,696	2,706
Kilometres of mains in use (year end)	14,845	14,845	14,243
Population of area served	4,528,000	4,443,000	4,378,000

Note: Degree day deficiency figures given, expressed in Celsius, are those for the Toronto area. The deficiency is a measure of coldness during the heating season and is calculated by adding together the total number of degrees by which the daily mean temperature fell below 18°C on those days when it did so

1975	1974	1973	1972	1971	1970	1969
310,143	303,571	277,030	229,907	174,966	177,342	148,742
3,332	3,002	3,006	2,651	1,676	1,581	764
313,475	306,573	280,036	232,558	176,642	178,923	149,506
(56,439)	(51,289)	(46,612)	(32,399)	(26,186)	(40,908)	(24,039)
56,462	36,984	30,704	42,281	30,979	25,457	20,344
313,498	292,268	264,128	242,440	181,435	163,472	145,811
63,932	62,538	59,249	55,320	53,465	51,568	46,942
90,536	82,814	73,794	65,969	54,651	46,782	38,971
156,842	144,534	128,188	118,757	70,548	63,110	57,939
311,310	289,886	261,231	240,046	178, 664	161,460	143,852
539	468	507	453	385	374	386
1,649	1,914	2,390	1,941	2,386	1,638	1,573
313,498	292,268	264,128	242,440	181,435	163,472	145,811
1,450,800	1,435,700	1,257,600	1,148,300	977,900	855,300	739,800
306,100	272,600	286,300	236,600	158,000	134,400	135,100
859,000	801,000	724,000	662,000	497,100	447,900	399,500
3,987	4,137	4,057	4,196	4,230	4,099	4,161
443,247	427,181	406,596	391,270	375,275	363,365	352,597
42,295	39,465	35,384	32,985	30,755	28,428	26,342
5,700	5,585	5,415	5,295	5,176	4,876	4,630
491,242	472,231	447,395	429,550	411,206	396,669	383,569
$1.61	$1.34	$1.27	$1.26	$1.26	$1.26	$1.27
$1.18	$ .93	$ .85	$ .84	$ .85	$ .86	$ .87
$ .93	$ .69	$ .62	$ .61	$ .63	$ .63	$ .62
142.6	145.0	143.2	141.0	141.7	141.0	132.8
2,711	2,703	2,550	2,379	2,322	2,377	2,221
13,969	13,656	13,297	12,766	12,293	12,005	11,779
4,305,000	4,238,000	4,180,000	4,085,000	3,960,000	3,862,000	3,765,000

The Consumers' Gas Company

Directors

J. Douglas Gibson, O.B.E.*†
Chairman of the Board–The Consumers' Gas Company, Canadian Reinsurance and Canadian Reassurance Companies
Director–Bell Canada, Harding Carpets Limited, Home Oil Company Limited, The Imperial Life Assurance Company of Canada, Moore Corporation Limited, National Trust Company Limited, North American Reinsurance & North American Reassurance Companies, Northern Telecom Limited, Scurry-Rainbow Oil Limited, Steel Company of Canada Limited

G.E. Creber Q.C.*
President and Chief Executive Officer–The Consumers' Gas Company
Director–Canada Trustco Mortgage Company, The Canada Trust Company, Chubb Industries Limited, Fireman's Fund Insurance Company of Canada, Home Oil Company Limited, Plumbing Mart Corporation, Rothmans of Pall Mall Canada Limited, Scurry-Rainbow Oil Limited.

A.R. Poyntz*°
Director–Home Oil Company Limited, The Imperial Life Assurance Company of Canada

W.H. Zimmerman, Q.C. (Deceased)

R.H. Carley, Q.C°•
Partner–Carley, Lech & Lightbody, Solicitors
Director–Kesco Holdings Limited, Raybestos-Manhattan (Canada) Ltd.

N. Torno, M.B.E.*•
Chairman of the Board and Chief Executive Officer–Jordan & Ste-Michelle Cellars Ltd.
Director–The Canada Trust Company, Carling O'Keefe Limited, Cygnus Corporation Limited

A.G.S. Griffin*°
Chairman of the Board–Home Oil Company Limited, The Commercial Life Assurance Company of Canada, The Halifax Insurance Company, Scurry-Rainbow Oil Limited
Director–Canadian Corporate Management Company Limited, Canadian Industries Limited, I.C.I. Americas, National Film Board, Raymond International Inc., S.G. Warburg and Company International Holdings Limited, United Dominions Corporation (Canada) Limited, Victoria and Grey Trust Company

G.W. Carpenter, P. Eng.
Executive Vice-President–The Consumers' Gas Company
Director–Home Oil Company Limited
President and Director–Tecumseh Gas Storage Limited

R.S. Paddon, Q.C.
General Counsel–The Consumers' Gas Company
Partner–Aird & Berlis, Solicitors
Director–Cygnus Corporation Limited, The Becker Milk Company Limited, Euclid Canada Limited

O.E.B. Low, Q.C.°
Counsel–Low, Murchison, Burns, Thomas & McCay, Solicitors
Chairman of the Board–Holo Investments Ltd.

C.S. MacNaughton°•
Honorary Chairman of the Board–Burns Fry Limited
Director–Bank of Montreal, Canadian Cable Systems Limited, Canadian Canners Limited, Laidlaw Transportation Limited, Redpath Industries Limited

F.H. Newman, P. Eng.†
President–Newman Bros. Co. Limited

R.F. Phillips, F.C.A.
President and Chief Executive Officer–Home Oil Company Limited
President and Director–Scurry-Rainbow Oil Limited
Director–Air Canada, Calgary Power Ltd., Crown Trust Company, The Commercial Life Assurance Company of Canada, The Halifax Insurance Company

R.S. Hurlbut*†
Chairman of the Board–General Foods Limited, Canterbury Foods Limited, Hostess Food Products Limited, Industrial Catering Limited, White Spot Limited
Director–North American Life Assurance Company, Northern Telecom Limited
Vice-President–General Foods Corporation, N.Y.

G.E. Jackson†
Senior Vice-President–Reed Shaw Stenhouse Limited
Director–C.N.E. Stadium, Monarch Investments Limited, Reed Shaw Stenhouse Limited

Mrs. A.F.W. Plumptre†
Consultant
Director–Canada Life Assurance Company, Canada Permanent Trust Company, Canada Permanent Mortgage Company, Dominion Stores Limited

*Executive Committee Member
°Audit Committee Member
†Pension Committee Member
•Management Resources Committee Member

Officers

J.Douglas Gibson
Chairman of the Board

G.E. Creber
President and Chief Executive Officer

G.W. Carpenter
Executive Vice-President

J.L. Aiken
Senior Vice-President Accounting

K.J. Harry
Senior Vice-President & Chief Financial Officer

R.S. Lougheed
Senior Vice-President Gas Supply

A.R. MacKenzie
Senior Vice-President Administration & Strategic Planning

R.W. Martin
Senior Vice-President Operations

J.I. Cuthill
Vice-President Exploration and Storage

T.E. Gieruszczak
Vice-President Special Projects

G.J. Hills
Vice-President Budgets and Rates

R.I. Jones
Vice-President Strategic Planning

C.F. Safrance
Vice-President System Operations & Engineering

E.W.H. Tremain
Vice-President Corporate Affairs & Corporate Secretary

W.S. Pope
Treasurer and Assistant Secretary

G.T. Waugh
Comptroller

W.R. Fatt
Assistant Treasurer

The Company programs the expansion of facilities to service the needs of its customers.

(Top)

Gene McNamara, the West Central District Manager, is seen in front of the new Mississauga headquarters. The 125,000 square foot building serves the fastest growing community in the Company's system which accounted for 30.3% of customer growth in the past year.

(Middle)

Our Niagara Falls Office and Service Centre opened in February of this year. Pictured in front of the 17,600 square foot building are District Manager Glenn Gandy and Regional Manager Ron Goodenough.

(Bottom)

The Victoria Park Centre, which has doubled in size during 1978, can now accommodate certain employee groups who previously occupied rented premises. Three storeys have added 112,400 square feet. As planned, this addition comes 10 years after the original building was opened. Pictured in front of the building is Metro Toronto District Manager Geoff Milburn, who supervised the original building construction.

Corporate Information

The Consumers' Gas Company
Incorporated under the laws of the Province of Canada March 23, 1848 and continued as if incorporated under the laws of the Province of Ontario

Head Office
Suite 4200, 1 First Canadian Place, P.O. Box 90, Toronto, Ontario M5X 1C5

Registrar and Transfer Agents
Common Shares and Preference Shares, Group 1
Canada Permanent Trust Company, 20 Eglinton Ave. West, Toronto, M4R 2E2 and in St. John's, Halifax, Charlottetown, Saint John, Montreal, Winnipeg, Saskatoon, Calgary and Vancouver
Bradford Trust Company, New York

Registrar and Transfer Agent
Convertible Preference Shares, Group 3
The Canada Trust Company, 110 Yonge St., Toronto M5C 1T4 and in Halifax, Montreal, Winnipeg, Regina, Calgary and Vancouver

Trustee and Registrar
Bonds
5½%, 4.85%, 8⅝%, 8%, 8¾%, 9⅛%, 11⅜%, 11½% and 10⅞% First Mortgage Sinking Fund Bonds
Canada Permanent Trust Company, 20 Eglinton Ave. West, Toronto M4R 2E2

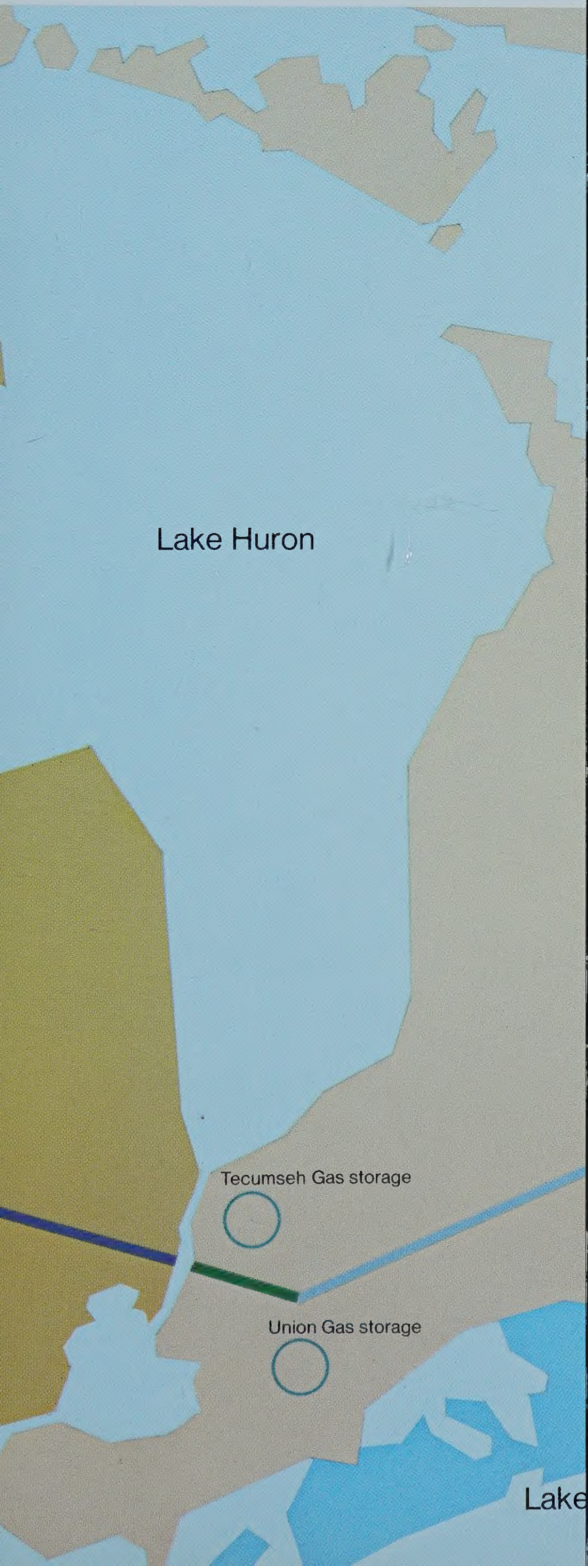
Trustee and Registrar
Debentures
7%, 6½%, 6%, 6¼%, 6⅛% and 8½% Sinking Fund Debentures
Crown Trust Company, 302 Bay Street, Toronto M5H 2P4

Trustee and Registrar
Debentures
8⅝% and 9.60% Sinking Fund Debentures
National Trust Company, Limited, 21 King Street East, Toronto M5C 1B3

Trustee and Registrar
Convertible Debentures
6% Convertible Sinking Fund Debentures
The Royal Trust Company, Royal Trust Tower, Toronto-Dominion Centre, Toronto M5W 1P9

Common Share Information (Shares are listed on the Toronto and Montreal Stock Exchanges)	1978	1977	1976	1975	1974
Shares Authorized	**75,000,000**	75,000,000	75,000,000	75,000,000	75,000,000
Shares issued at September 30	**20,669,084**	20,652,710	20,643,544	20,643,344	17,510,173
Weighted average number of common shares outstanding during the year	**20,658,821**	20,645,459	20,643,424	18,219,408	17,510,173
Additional shares which may be issued upon:					
Conversion of debentures	**354,758**	354,758	354,758	354,758	2,549,915
Conversion of preference shares	**1,545,533**	1,545,667	1,333,133	1,333,333	—
Exercise of Stock Options	**51,907**	68,257	76,457	37,557	86,957
Dividends declared per share	**$1.14**	$1.08	$1.00	$1.00	$ .91
Number of Shareholders at September 30	**30,220**	30,097	29,745	29,517	27,323
Distribution of Shares at September 30					
Canada	**98.0%**	97.8%	98.0%	97.9%	97.3%
Other	**2.0%**	2.2%	2.0%	2.1%	2.7%

Consumers' Gas and Subsidiaries Service Area September 1978



The operations of the Company are carried out primarily through the following subsidiary and associated corporate entities:

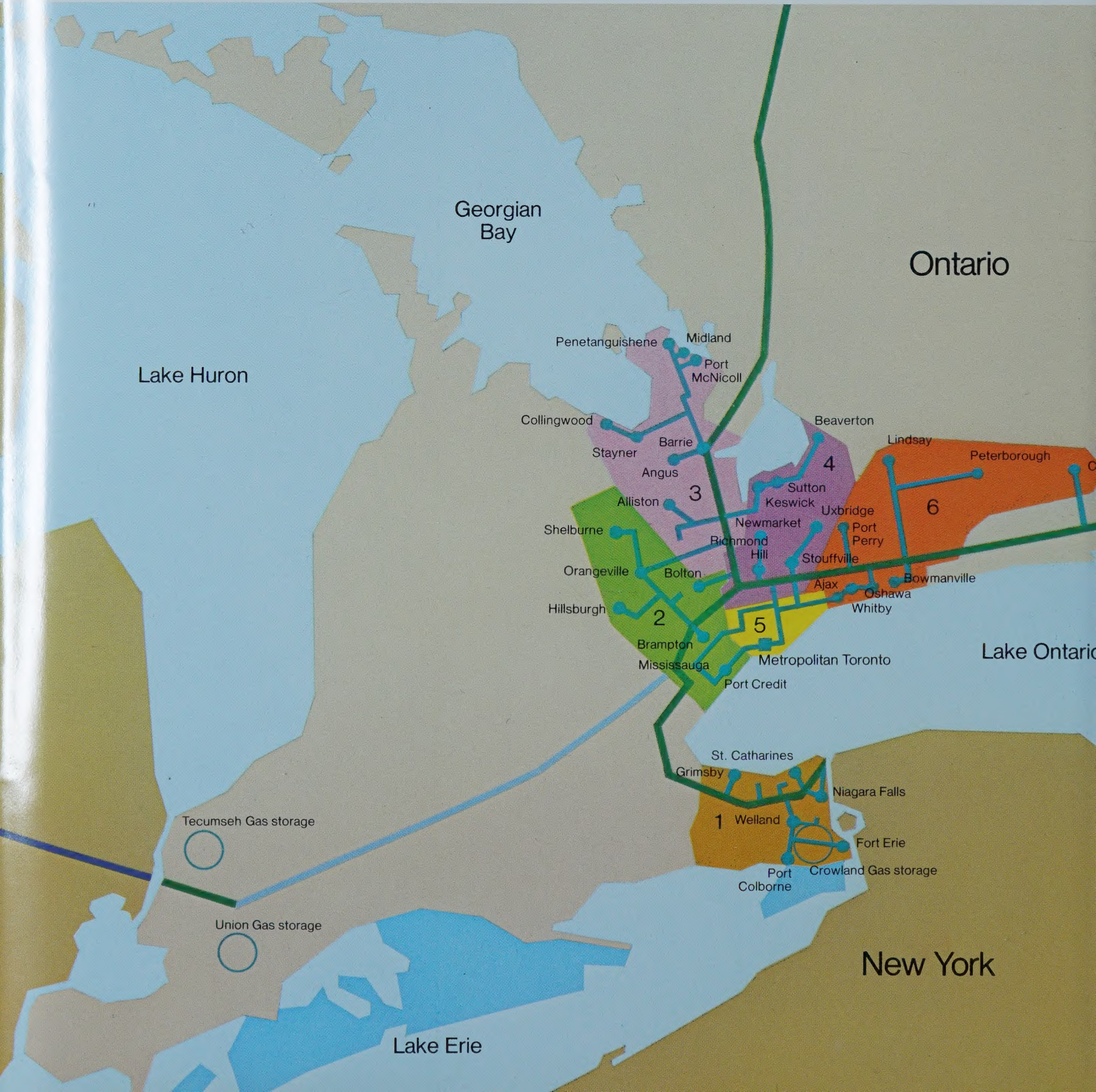
Natural Gas Operations
The Consumers' Gas Company
Tecumseh Gas Storage Limited
Société Gazifère de Hull, Inc.
St. Lawrence Gas Company, Inc.
Niagara Gas Transmission Limited
Shorgas Limited

Oil and Gas Exploration, Development and Production
Home Oil Company Limited
Scurry-Rainbow Oil Limited
Underwater Gas Developers Limited
Sogepet Limited

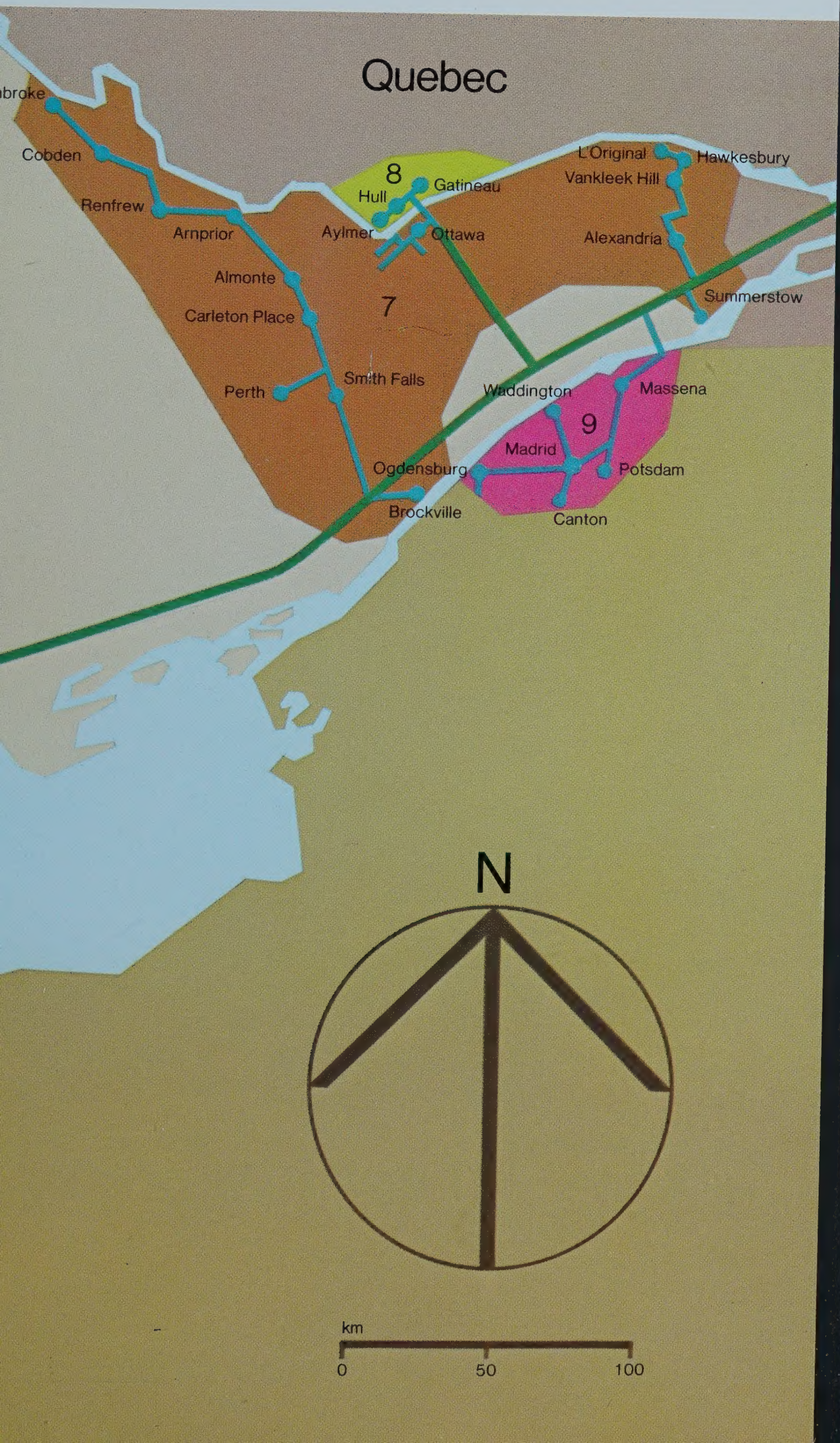
Other Operations
Cygnus Corporation Limited
Consumers' Realty Limited
Fingas Investments Limited

Consumers' Gas and Subsidiaries Service Area September 1978

Offshore exploration acreage
Consumers' distribution system
TransCanada PipeLines
Great Lakes Gas Transmission Company
Union Gas transmission facilities
Underground storage



	Active Customers		Sales Volumes MMCF	
	1978	1969	1978	1969
1 Provincial	95,816	71,772	47,402	28,519
2 West Central	75,406	32,021	32,424	14,801
3 Georgian Bay	14,924	6,596	7,233	3,608
4 North Central	25,798	10,201	9,556	3,292
5 Metro Toronto	262,388	220,060	167,707	69,754
6 East Central	32,985	16,213	13,170	5,671
7 Eastern Ontario	34,244	14,332	23,560	11,015
8 Gazifère de Hull	7,759	4,695	2,327	2,118
9 St. Lawrence Gas	9,278	7,679	6,196	5,074



Consumers' Gas

SUITE 4200
1 FIRST CANADIAN PLACE
P.O. BOX 90
TORONTO • ONTARIO M5X 1C5

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